Alternative to Serfdom

ALTERNATIVE

TO

SERFDOM

Five lectures delivered on the William W. Cook Foundation
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By

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To the memory of

CHARLES HORTON COOLEY

Preface

I SHOULD LIKE TO HOPE that this small volume might bear a relation to more technical economic inquiries, somewhat akin to that of my father's similarly small volume for which he chose the title: *The Philosophy of Wealth.* The differences are those appropriate to the momentous changes, intellectual and practical, that have taken place over a period extending back, in all, more than seventy years.

A society in transition now faces, in new forms and with fresh urgency, the great problems of freedom and responsibility, community and market mechanism, political and economic agency. This volume of lectures attempts a brief approach to these great problems in their current aspect and setting. It is done from the standpoint of an economist, but of an economist who believes that the subject-matter of social life has burst the compartments of the conventional academic containers. The fixing of wages, for example, has become inescapably a political as well as an economic matter. I have taken advantage of these lectures to put forward an integrated series of explorations, each involving some departure from "orthodox" attitudes, in the double hope that they may stimulate others to develop these basic approaches, so far as they may seem sound; and that my own future work may have the benefit of reviewers' critical comment.

The first step is to ask what we want of our society, to be followed by the question what the economic system does to further or defeat these wants—any or all of them, not merely those gratifications that are directly bought and sold in market transactions. This may appear the merest self-evident common sense to the reader who is not an

economist; but since so much formal economic theory declines even to consider the content of wants and confines itself to their reflection in market transactions or choices, this constitutes a broadening of the traditional economic problem which has revolutionary implications, if theory were to accept it. In any case, it is the problem social policy faces.

The second lecture takes up the conception of human nature, from a biological starting-point and in the light of the broadened problem that the first lecture posed. If these questions are considered, as they often have been, simply from the standpoint of what changes they require in the traditional formal theory of value and distribution, viewed in the limited perspective already indicated, they may not seem to compel much change on the part of a thinker predisposed to retain the existing theory. From the standpoint of the processes involved in creating values, they make more difference; and from the standpoint of the broadened problem laid down in the first lecture, they may call for a fairly fundamental transformation.

In the third lecture the main theme is that the public support of competition is much more limited and specialized than often appears, being qualified throughout in favor of "security." And the formal concept of pursuit of maximum profit, in its usual theoretical form, seems an insufficient guide to the policies either of monopolies or of competitors well above the "margin" of bare survival. In the fourth lecture an attempt is made to place the "Keynesian revolution" as a part of the broader transformation that the first lecture laid out. And in the fifth and last lecture a trial is made of the thesis that economic organizations are forms of quasi-private government, requiring political as well as economic concepts to interpret their behavior.

Throughout the treatment runs one dilemma. Man

needs to belong to a community unit smaller and more personal than the overpowering state; but the units that meet this need — including trade unions — are not parts of an integrated community, but monopolistic groups, at war with others. To resolve these conflicts without destroying liberty seems to require, first, that the powers of these groups be fairly well balanced and, second, that they be responsibly exercised. The means of accomplishing this will tax our qualities of citizenship and our powers of social invention. These lectures will have done their work if they convince the general reader of the truth of these main theses and persuade the specialist that there is something in the various concepts and approaches used which is worth more detailed and competent examination.

It is impossible to make proper acknowledgment to the host of writers whose thoughts have constituted the intellectual environment in which my own personal views have taken shape. One major indebtedness is recognized in the dedication of this volume. But I must express my enduring gratitude to Dean Stason and Professor Sharfman and many other friends, old and new, members of the lectureship committee and others, who did so much to make the week of these lectures a memorable experience.

J. M. CLARK

Westport, Connecticut
April 30, 1947

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Alternative to Serfdom

I

Wanted: a Balanced Society

1. *The keynote.*

By a "balanced society" is here meant one that includes balance of four different, but related, sorts. First, there is balance between private action and governmental power: between freedom and coercion. The increases of executive power of which Professor Edward S. Corwin spoke last year in *Total War and the Constitution,* his lectures under the William W. Cook Foundation, are mostly reflections of things government had to do for defense. There will be similar pressures in the future toward increased executive power to do things that need to be done, by public agency if private fails, to reduce instability and chaos in the economy. As an economist I shall be concerned with these things. A balanced way of doing them includes what is commonly spoken of as a "mixed economy" — though perhaps today both our economy and the society in which it exists are "mixed" in more senses than one.

Second, in the private realm there is balance between individual freedom and group organization and action: between man as an individual and man as a social animal. Third, there is balance between self-interest and group or community interest; and if this is to be maintained without an overgrowth of coercion, it must be done by a great increase in the voluntary assumption of responsibilities. Or instead of calling this "voluntary," one could say that we must accept the compulsion of facts and thereby forestall "regimentation" by government. Finally, as the best sanction to enforce responsibility on unregenerate human na-

ture, there must be a balance of power between the groups and elements of which the community is composed.

So, if this series of talks has a single keynote, it is the principle that the price of freedom is its responsible exercise. This has always been true; irresponsible self-interest would have wrecked our system long ago if it had been pushed to the utmost limits that some theories contemplated. But today the need is vastly greater and more immediate. New and greater private powers call for new and greater responsibilities, and the disaster that waits on failure is more immediate and more complete.

The responsibility in question works in two directions. Whenever man acts as an individual, he is responsible to his group or his community; and when he acts on behalf of his group, he is responsible to the members of the group he represents; and on behalf of the group he is responsible to his community — to the whole society or to some larger constituent group of which the first group is a member. This two-way relationship extends from the smallest groups to the largest one of which we are accustomed to thinking — the nation. The nation is recognizing long-neglected responsibilities to its individual members, and in addition is wrestling with its responsibilities to the world community that is struggling to be born, and that must be born if the world is to go on living.

Groups are numerous and varied, and every individual *is a member of many. Our job of social salvation lies in* reworking the relations of these groups and of the individuals within them. And there is much to be done. The democratic state has not found its place, nor how to do its job, in the new world. Instead of being the organ of a unified society, with its functions and powers arising rather naturally from the constitution of the society it represents, it is groping desperately, precisely because it has no organized society back of it in respect of most things — only

when the country is attacked overtly, by force of arms, and by a foreign power. More dangerous threats to our social constitution, from within, do not unify, but divide us.

Economically we are not a community. The market has had such marvelous organizing powers that it has deluded many of us, for some hundred and seventy years, into thinking that it could do all that was needed to organize an economic community on a basis of consent as embodied in the act of free exchange. But it has been growingly evident for many years that this was expecting from it something beyond its powers, great as these were. We have gradually discovered — though many have not admitted it — that markets can organize material interests only, and not all of these, and that this is not enough to constitute a society. Some of us learned this many years ago, from Charles H. Cooley; today the lesson is being driven home again, with freshly urgent emphasis, by Karl Polanyi.[1] Things the market pseudo-society has wrecked are hopefully turned over to the state, a too vast and impersonal mechanism whose constitution does not correspond too well to the economic realities.

Between the individual and government, or markets, stand great organized groups; farm federations, business corporations, and labor unions. And these are the crux of the present dilemma. In a simple economy without such groups, irresponsible self-interest is — almost — a possible organizing principle in the strictly material realm. It would merely mean the exploitation of the weak by the strong, the incapable by the capable. But organize society into groups, and irresponsible self-interest can both corrupt the groups and shatter the society.

Why does a state need an organized community back of

[1] Cf. C. H. Cooley: *Social Process*, especially Parts III and VI; and Karl Polanyi: *The Great Transformation, passim.* (Also English edition under the title: *The Origins of Our Times.*)

it, to the constitution of which its own constitution corresponds? Because otherwise the alternative is coercion or chaos. If the community is itself well knit, it can call on the state to do various things that the state can best do; but coercion will be needed only to keep recalcitrant minorities within bounds. But if within the society there is a "state of nature" that approximates a state of war, then the state either will fail to maintain tolerable order, or will do it at the cost of general and indiscriminate coercion, and either way personal liberty is lost.

And at present the economic groups into which we are organized are too near this condition, bringing the alternative of coercion or chaos too close for either comfort or safety. These groups are too large, too sophisticated, too consciously and rationally purposeful, to organize themselves into a community of the "natural" sort of which anthropologists tell us, as found, for example, in the South Sea Islands before white civilization submerged them. The organizing of these warring groups must be done by the more deliberate kind of action associated with the theory of the "social contract." In fact, we seem to be in a stage of human development to which some form of "social contract" theory may, for the first time, be applicable on the scale of a "great society." But not for the whole job of organizing a community. There must be an underlying feeling of a common bond, if only the danger of mutual annihilation, to furnish a basis for a willingness to recognize mutual rights and responsibilities. And so we come back to our central theme.

This calls for an adventure in reconstruction, for which no happy outcome can be guaranteed. The world is in the grip of a mighty struggle. On one side are forces driving toward chaos and anarchy, political, social, economic, and moral. On the other side are forces of centralized con-

trol. Between them stand the forces and men who are trying desperately to salvage a workable basis for a humane and ordered community, in which some effective degree of freedom and democracy may be kept alive, without wrecking society by their undisciplined exercise and disruptive excesses. There is no point in asking, in the Year of Atomic Energy II, for a world safe for freedom and democracy. Society is condemned to live dangerously — of that much we can be sure. Our fighting chance depends on developing the capacity for generous and constructive thinking and acting, beneath the sword of Damocles.

2. *What is the spirit of American institutions?*

I am invited to speak on American institutions and their preservation, in a world where far-reaching change is inevitable and imperative. In these circumstances it is self-evident that one feature of our institutions on which we must rely is their capacity for reasonably orderly change. If change is to be in the spirit that has characterized America in the past, it becomes particularly important to ask what that spirit is. It has included much irresponsible self-interest, emphasis on material acquisition, and other things not lovely enough for us to be eager to preserve them intact; and they will presumably still be with us — we shall have them to reckon with. The typical American has looked, not to status, but to conquering an expanding place in a growing economy. This quality we shall keep, but its methods will include more group organization, and we shall need to balance it by seeing that those who encounter difficulties or who fall by the wayside are treated as members of a community should be treated and not as derelicts.

America has been a land of opportunity. To maintain

this quality will require more deliberate provision in the future. America has looked to the present and the future more than to the past, and this must continue to be true; but we have reached a stage in which a look at the past is a salutary and even a necessary thing, to tell us what things we have neglected and must now take into account. Americans have given lavishly of their energy to conquer the frontier. It is a commonplace that the frontier today is in the field of neglected social adjustments.

It cannot honestly be said that Americans have scorned the help and protection of government; but in their self-seeking and their teamwork they have sought to maintain as much voluntary action as possible. They have welcomed change of their own initiating and, like people the world over, have grumbled at having changes forced upon them. Now the changes they have severally initiated in the adventurous past have cumulated into a changed society to which they must adapt themselves, with or without grumbling. The best they can do is to make a virtue of this necessity and throw their best initiative and energy voluntarily into the conquest of the new frontier of social adjustment.

In doing this, Americans who maintain the spirit of their institutions will do their utmost to maintain the basic freedom and independence of individuals in an age when organization has become necessary and inevitable. Organization may, of course, increase liberty, as when a grievance committee increases a worker's liberty by giving him something he can do about a foreman's tyranny. This could, of course, go too far. When much restriction on liberty cannot be avoided, perhaps the basic liberty for each individual is the opportunity to decide what areas of liberty are most important to him — whether to run his own business, to work outside a union, or to state his own thoughts — and to find these liberties open if he is willing to pay a reasonable price. It is tremendously important that the rule of organization

should not be universal; that there should be areas open to the genuine individualist, even though he may be in a minority in the present age.

3. *The economic problem.*

The economic part of this picture can be broadly defined as the question how our economic mechanisms operate to serve, to disserve, or to neglect the wants and needs of the people as a whole. This is frankly a broad conception and defines an area of investigation in which economists are not the only ones who may properly join. And for our present purpose we shall not be mainly interested in the multiplication of marketable goods and services, on which, traditionally, the attention of economists has been focused, but in those underlying social forces and values, relations and conditions which are so important in themselves to the health of the society and without which the mechanisms for creating marketable goods and services cannot long continue to operate. Economists have various ways of insulating their study from these broader matters, but their reasons seem insufficient; and the field of these lectures seems clearly to call for breaking through this insulation and grappling with the large and difficult problem I have defined.

I have not the time to thrash out the methodological issues involved, if I had the inclination. Briefly, economists are supposed, in their professional capacity, to be neutral as between particular ultimate purposes and needs. This may, in principle, be accepted, without drawing the conventional conclusion that economists should ignore the ends of life, refusing to ask what people want or need, and considering only the economic mechanisms for promoting their attainment of whatever ends they do pursue.

The conventional ideal is well expressed in the dictum

that Jevons attributes to Bacon: "While philosophers are disputing whether virtue or pleasure be the proper aim of life, do you provide yourself with the instruments of either." [2] This assumes that the instruments — economic mechanisms — are themselves neutral; and the trouble is that they are not. The economist's chief mechanism — the market — cultivates certain kinds of needs and neglects others. It is biased; and if the economist limits himself as suggested, he is accepting the bias of his mechanism.[3] The correction of the bias is then left to others, without the help economists can give in what is properly a joint undertaking.

There are two main ways of going at this undertaking. One is to compare the economic mechanism with various other ways of appraising values — political, ethical, psychological, medical — with an eye to the special contribution each is best fitted to make. This is "altogether fitting and proper." But, aside from the fact that we have not time to follow it out in these talks, its conclusions are uncertain unless checked by experience; and this necessarily involves taking note of particular values that are furthered or denied. And this brings us to the second method, which starts with particular values and asks how important they are, and how well they fare under different mechanisms.[4] In a democratic society the final arbiter between ultimate ends is the settled judgment of the people as to what they want. But if this judgment is to be validly registered, the people must know what they are getting, and what price they are paying for it.

And so I invite you to join with me in asking ourselves what it is that we, as a people, want, and need, from our

[2] Jevons: *Theory of Political Economy* (2nd ed.), p. 29.

[3] This bias has been excellently analyzed by C. H. Cooley: *Social Process*, especially Chapters xxvi and xxvii.

[4] These two methods are illustrated by two books by John A. Hobson. His *Wealth and Life* (1924) illustrates the first, more academic method; his *Work and Wealth* (1914) illustrates the second.

economic system, and what the system is doing to, or for, these wants and needs. In the spirit of objectivity we should try our best to exclude purely personal preferences and confine ourselves to things for which the want, or the need, is general and well established. But within these limits there is much food for thought.

4. *Wanted: an economic constituent assembly.*

Let us, if you like, consider ourselves an economic constituent assembly, or a national policy committee with power to recommend amendments to our economic constitution. And as a first step let us ask ourselves, thinking as best we may on behalf of the people at large, what we want, first, of our society and, second, of the economic system. There will, of course, be conflicts among these desires, and questions as to how far they are attainable without using methods and mechanisms we do not want to use. If we fail to examine these questions realistically, the outcome can easily be one we did not intend and do not want. If we are to substitute planned policy for the greater dangers of drift, we must not shirk these questions of feasibility; and an attitude of healthy skepticism will have its uses, if it does not go to the lengths of rejecting anything the outcome of which cannot be guaranteed. That would mean drift toward fairly certain disaster. Some chances must be taken.

First, we want national safety through international peace. Not quite peace at any price; but for it we are ready, for example, to let an international board inspect our extraction and handling of fissionable materials and generation of atomic power. To induce that concession from absolute sovereignty required a great danger; to make our people accept it required a great fear. We are also ready to talk of freer trade, until it comes to the point of particular imports competing with particular home products, and

then our fear tends to be submerged by our industrial interests, and we drift back to old policies that would mean an international struggle to "export unemployment." We cannot soundly solve our domestic difficulties in that parasitic fashion. We still lack full realization that no country can be stable when the countries it deals with suffer violent instability, and no country is safe in a world where many countries are sick.

Since peace cannot be guaranteed, we want also to be prepared for defense if war comes — preferably not for the war we have just fought, but for such a war as might conceivably fall upon us. If taken seriously, this would call for drastic transformation of our terrifically vulnerable concentrations of industry and population, not to mention putting key units far underground. Is rubber a key industry? Should we keep our war-created synthetic-rubber industry, or let it succumb to imported natural rubber, if it will, in the interests of cheap goods for our consumers, or should we compromise, with some regard to friendly trade relations with rubber-producing countries? These are samples of the economic questions involved in defense.[5]

Secondly, there is the question of internal peace and harmony. But this we do not want at the price of freezing the *status quo* or abandoning to a coercive state the principle of voluntary adjustment. We need freedom to organize in groups which may change the balance of power in the social structure without disrupting it, and which may improve and protect the individual's status without crushing his individuality. Past adjustments have been worth some conflict if they could be had in no other way. We have needed changes for which the strike, for example, seems to have been a necessary means, and we may still need them in the future.

The strike is an American institution which will not

[5] Economists since Adam Smith have habitually neglected this field.

soon be abolished. It has developed into a fairly complex structure of tactics, protected by privileges and immunities, legal and extralegal; and in its present form it has dangerously coercive power in a growing number of crucial industries. Its use is bedeviled by the subtle influence of a minority of revolutionaries, to whom disputes are means to revolutionary ends, and a reasonable adjustment, accepted as such, is a lost opportunity for strife. And there may be other interests that find good fishing in unnecessarily and dangerously troubled social waters. We need honesty in our economic conflicts. And we need means of readjusting power and status that will not be destructive, nor give a growing number of strategically situated minority groups power of unchecked coercion over the rest of us because they can at will shut off the necessities of community existence.

Third, the people want jobs — ample and stable employment. Very well; the best assurance of that lies in a collectivist system. But no, the people want their jobs in an economy of private enterprise. It is no news, of course, that business men want private enterprise continued; the decisive thing is that agriculture and organized labor also prevailingly want it, and that makes it very nearly unanimous. This does not give us the ultimate end-reasons why they want it, and some might find difficulty in saying just why they do. Perhaps organized labor fears totalitarian coercion more than it fears the waning power of private employers to oppress. Or perhaps it merely thinks it can get more out of private employers than out of government — as in the long run is very likely. Perhaps organized laborers feel that under collectivism they would be working for the government, while under private enterprise they may expect soon to have private employers, in effect, working for them. They may be confident of their power to progress toward a situation which could fairly be described in that way. That, of course,

raises the question whether, at some point along the road, the goose would cease to lay such plentiful golden eggs.

This general attitude may involve two misconceptions. One is that there exists a large fund of surplus profits that can be tapped for the workers' benefit without trenching on the incentives necessary to induce business to expand, invest, and employ in vigorous and enterprising fashion. On the other side is the contention that profits cannot be squeezed out much thinner without substantially restricting private investment and employment. Historically the proportion going to wages and salaries has shown a marked, if rough, stability at about two thirds of the national income.[6]

Wages and profits have both increased enormously during the past century, but in different ways. Real weekly earnings per worker have increased on a reduced investment of labor-time — that is, despite a substantial reduction of hours worked. Property income and entrepreneurial gains have increased through vastly increased investment, despite a probable reduction in the average rate of profit. And there is always a substantial percentage of enterprises that are operating at a deficit. A simple reduction of all profits "across the board" would mean a large increase in the number of deficits, with serious effects on employment. The health of the economy may require a reduction of average profit-rates; but if so, this calls for a reduction in the spread between high-cost and low-cost concerns, and this cannot be done easily or overnight. This *relationship* suggests that ideas of a vast fund of superfluous profits,

[6] For manufacturing, the proportion is much larger, having been over five sixths in 1935. It is not possible to segregate the portion of salaries, which is economically equivalent to profits, but it is considerably more than offset by incomes of small proprietors, on farms and elsewhere, which are largely rewards for manual labor. Cf. Nat. Resources Com., *The Structure of the American Economy*, June 1939, pp. 81–3, and *Data on Wages and Profits*, 80th Congress, 1st sess., Senate Doc. No. 21, p. 14.

which labor can quickly tap, are largely a propaganda product, born of wage-disputes.

Akin to this is the idea that substantial wage-increases can be absorbed, or need add little to prices, because the wages paid in a given factory are so small a part of the price of the product. The explanation is, of course, that the price of the product includes many wage-costs not paid for work done in the factory; particularly the wage-cost of materials used, but not necessarily confined to that. Wages in one factory may rise without greatly affecting the cost or the price of the product, but this tells nothing about how much labor as a whole can gain by a general wage-increase. The point of this explanation is not to enlighten this audience on these rather elementary matters, but to indicate that there are confusions in the workers' minds as to how much they can hope to squeeze out of private employers and where it would come from. If their preference for private enterprise rests on exaggerated expectations, they may be disappointed and disillusioned.

Another matter on which straightforward facing of facts seems to be studiously avoided is the question: how close an approach to full and stable employment is private enterprise capable of, and if its performance is not satisfactory, what then? There are numerous kinds of unemployment, due to various causes that operate even in active times; and in addition some cyclical fluctuations are pretty clearly inevitable in any system of private enterprise, even under policies aimed at stabilization. It is not yet proved that such a system can keep unemployment within the amount that can be successfully financed by an adequate system of social-security benefits, and if not, the system is threatened. If industry in general were required to maintain a guaranteed annual wage, that would further reduce the amount of unemployment that industry could finance and stay solvent. It would set a more exacting standard of performance.

If standards are set which are not lived up to, labor may decide that it prefers the uncertainties of a change to collectivism. Whether it makes this decision deliberately or not, it will surely press for measures to increase employment, in the face of uncertainty as to how much of this sort of thing business can adjust itself to and still perform satisfactorily. This is probably a movable limit, but not movable at unlimited speed, and perhaps not beyond some fixed but uncertain boundary. If the limit is exceeded, we might drift into collectivism by default and without wanting it. On these matters sound social development calls on us to accept the necessity of compromise between different values, facing frankly the alternatives that confront us, including the unavoidable uncertainty as to just how far different ends can be combined, and where one will have to give way to another.

In the light of this dominant issue of employment, the more traditional economic objective of more goods per capita takes an altered place. It is still wanted for its own sake, but mainly on behalf of people who have fallen by the wayside in the general advance of economic progress — one need only mention Southern sharecroppers. For those in better-favored positions, continued increase in the quantitative standard of living is important, not only as a thing desired and desirable in itself, and perhaps not so much for that reason, as because some people must have goods in order that other people may have jobs which will have the dignity that goes with creating a worth-while product. It is this that makes adequate and stable spending such an important objective. Economists have learned, after over a hundred years of resistance to the idea, that spending does not take care of itself automatically; and they are now trying to make up for lost time in finding out how the flow may be effectively influenced.

But adequate total spending does not ensure adequate

jobs and production; it might be balked by restrictive practices or dissipated in inflationary struggles of rival groups, each seeking the lion's share of the proceeds. A good structure of wages and prices may not be enough, by itself, to bring about full employment, but a bad one can do much to prevent it. So we need to know what a good wage-price structure is, and how to promote it.

From this standpoint a "job" means an opening, an opportunity, which may or may not turn into employment, according as the worker does or does not meet proper requirements. And this opens up the still broader question of the quality of the job, and of the two-sided human relationship that it involves. As to this, impersonal mass production has created serious problems, which it is not safe to neglect, even when sheer lack of goods, or lack of jobs, may seem to have first claim on our attention. A good job is one that makes fairly exacting demands on the worker — for instance, the job of an economist — one that does not, fails to develop his capacities and to contribute to his healthy status as a human being. The ideal job is one that develops loyalties on both sides. This means that the job-relation needs to be one that can command mutual loyalty, not merely loyalty of the boss to his profits and of the worker to his union, though these are not excluded.

Discipline is essential, but not arbitrary discipline without recourse to a reviewing authority, whether the discipline is exercised by the employer or by the union organization. The worker has human rights, matched, as all such rights are, by corresponding responsibilities. And the developing and maintaining of such a system of mutual rights will be an endless social task, for which the basic constitution of industry can only furnish a working frame, within which adjustments can continually be made. But the character of this framework is vitally important.

A fourth major objective is called "security"; but it had

better be redefined as a balance between various kinds of security and of insecurity consistent with individual and social health. In the more obvious material realm a minimum of security is required, as a floor above which the incentives and insecurities of private enterprise can operate. Private incentives and social security will need to be fitted into a consistent whole, and this may take some doing.

But security has its qualitative side also. What a psychologist means by "security" is not protection against all vicissitudes, but a set of human relationships on which the individual can rely for support, so that he does not feel himself alone, facing a world too big for him to handle, and either hostile or overpoweringly and impersonally indifferent.[7] Or, as Mark Starr recently put it, he needs a sense of belonging.[8] Does this take us outside the scope of economic requirements? I believe rather that it takes us into an area of economic requirements, essential to the continuance of our system. which has been grossly and wellnigh disastrously neglected throughout most of modern times, when man has been wrongly regarded as an isolated bargaining entity. It is long past time for us to awake to this kind of security as an economic problem of the first order.

Other objectives must be only briefly listed—some of them have already appeared in connection with those I have chosen to stress. We need more goods, balanced with more leisure, more equality in goods and in opportunity, and freedom of choice of occupation, implemented by effective

[7] Charles H. Cooley expressed this idea as "a feeling that there is a larger and more enduring life surrounding, appreciating, upholding the individual, and guaranteeing that his efforts and sacrifice will not be in vain." He states: "It is rare that human nature sustains a high standard of behavior without" such an environment. *Social Process*, p. 139. One may note that this can have both a religious and a social interpretation. And one notes that it is something the impersonal market does nothing to create or conserve, and much to destroy. And it is a far cry from a mere guarantee of material goods.

[8] *Industry and Society* (W. F. Whyte, ed.), p. 151.

means of guidance. As to monopoly, perhaps the best summary of prevailing attitudes is this: we want big dollar monopoly curbed, and common folk sheltered from the rigors of competition. We want natural and human resources conserved — with many reservations. We want to keep freedom of consumers' choice, operating within limits designed to protect health and morals. We need freedom of political action, not forgetting the internal politics of corporations and trade unions: those private organs of unofficial government which rule so much of America's life.

In short, we need to define the natural rights of man in a new setting, and with a new content. The idea of natural rights has been discredited, largely because it was associated with a set of specific rules embodying an obsolescent form and degree of individualism, attaching to it an unwarranted claim to permanence, and applying formal contractual equality to a society whose differentiated functions no longer fitted this framework. But underlying this is the conception of the nature of man — his needs, reactions, and capacities — and of the arrangements he needs in order to fulfill his individual nature and to do his job in society. These are his natural rights, which society cannot deny without suffering a penalty rooted in the nature of society and of man. But the procedures that embody them do not remain fixed. And, with some basic exceptions, these procedures are not the same for business executive and sharecropper, for physician, professor, and coal-miner. With changing conditions, and changing knowledge of man himself, each generation must discover them afresh.

5. *The individual, the community, and the state.*

Underlying all this, and subject to development and modification by it, are our basic ideas of the relation of the

individual, the community, and the state. As to this, we have been living in a world of conflict between false absolutes — the absolute community or the absolute state, and the absolute individual. Our liberal civilization has been built on the myth of the absolute individual, whom the state and the community exist to serve; the community being an arithmetic sum of such individuals, and the state their agent, serving them best by giving them maximum liberty to serve themselves. Over against this theory, and taking advantage of its excesses and shortcomings, has arisen the doctrine of the totalitarian state, under which the individual exists to serve the community, of which the state is the embodiment; and the state's power embraces everything in life. In practice this means power that is not only unlimited, but irresponsible.

Our abhorrence of this doctrine should not lead us to support its extreme opposite, which leads to the apotheosis of irresponsible private self-interest. For neither of these one-sided theories is the truth about man and society, and neither is a sound basis for building a social constitution. A good society is one that makes demands on its members — demands that call out the full exercise of their powers — and in which these demands are prevailingly accepted voluntarily. Even our excessively individualistic society recognizes the supremacy of the state when it is attacked, though it takes special pains to maintain as much personal freedom as possible, even in wartime.

It is socially safe for individuals to concede the supremacy of the community only if the community is the kind that finds its life and welfare in those of its members and in their sound relations to one another. And it is safe for the community to regard its welfare as consisting in that of its members, and accordingly to give their individual purposes large scope, only if they are social animals and not self-seeking monsters or machines — if they take one another's

purposes and needs into account and regard themselves as basically responsible for behaving as members of a community. With this kind of individuals, in this kind of community, the two antithetical conceptions cease to be irreconcilable and can unite in a working synthesis, with conflict reduced to a matter of adjusting the details of marginal issues.

In this kind of community the state is the most tangibly powerful agency of the community, but not the only one. And while it needs to have ultimate supreme power of coercion — setting one side the thorny question of an ultimate right of revolution — it can get on with a limited exercise of coercive powers and still maintain orderly community life. In proportion as the social responsibility of the members is imperfect, the result will be turbulent; but if a strong, basic sense of responsibility persists, the turbulence will stop short of chaos. The state will have no need to set itself up, as Nazi Germany did, as the complete embodiment of the community, coercing the individual's entire existence. Instead, we shall have many groups representing parts of the community. In so far as they do not conflict with others, they are minor societies in themselves; and in so far as they do conflict, they must adjust or be subordinated.

6. *The strategic choices we face.*

In looking back over the catalogue of things we want and need, one thing that stands out is that the most crucial of them are not commodities one buys in a market, or that markets can be expected automatically to supply. Yet they are things the market affects, for better or for worse, and the ways in which it affects them are among the most important things about it. Left to itself, the market will neglect many of them, disastrously. The market must be made into a bet-

terworking mechanism for its characteristic task of production and distribution, but that will not do the whole job, which goes beyond impersonal mechanisms. Some of the market's omissions can be supplied by state action, but not all, since state action is too impersonal to meet the qualitative needs of human beings. If it distributes benefits (as it must), they fail to command a reciprocal sense of obligation; and if it exercises controls (as it also must), they cannot go far enough without danger of extinguishing personal liberties.[9] Other agencies must co-operate.

The conflicts of values will sharpen as programs for promoting them become more specific, but we must always expect that unintended by-products will appear and will have to be dealt with. We must remember that problems are not solved when they pass from the stage of political debate to that of administration; they are evolving, and they must be watched with the proverbial "eternal vigilance" for the appearance of those unintended by-products. All we here can do, in our capacity as an unofficial policy-assembly, is to try as well as possible to make up our minds what values are most important, how high our sights can prudently be set, and how to proceed to promote any one end without making irrevocable commitments that might endanger other values. And we can clarify our thinking as to what kinds of agencies we can best trust and to what kinds of disciplines they can most safely be subjected. These are the basic decisions preparatory to the momentous task of rebuilding an economic community.

For the community needs rebuilding — nothing less. Our marvelous industrial development has diverted our attention from vital aspects of that task and has neglected them. And it may be worth while to take a brief look back

[9] "Personal liberties" refers primarily to freedom of expression, movement, occupation, and political action, including the internal politics of corporations and unions.

over the road we have traveled, with a view to seeing what it is we have undone, or left undone, in our busy and successful building.

7. *The road we have traveled.*

Medieval civilization was a community, custom-bound and subject to lord and to church, but suited to the thought, industry, and social structure of the time. The individual was a member of something; he had his place, and knew it. The coming of modern times shattered this community beyond restoration. It had to be shattered, to make possible the development of modern science, industry, and democracy, but the process left a void, which we have still to fill. By a long and gradual process customary rights gave way to the institution of a class dependent on wages, fixed by contract. With this went the expansion of markets for commodities. Over it all stood the early national state, representing not a community, but dynastic or class interests.

The first reaction against this was, naturally, on behalf of the middle-class intelligentsia. With growing enlightenment, reason punctured the myths under which the state had promoted its particular interests. It showed how they impaired other interests, setting up as its criterion the sum of the separate interests of the members of the community. On the negative side this was effective; on the positive side, as we have seen, it became itself a dangerously one-sided myth. It conceived the community as an arithmetic sum of separate, rationally calculating individuals, whose economic requirements were fully met by unmitigated self-seeking under free contract. Community status was replaced by market mechanisms.

In politics the idea of similar self-seeking, acting through a counting of noses, displaced government by the select few. People—especially the materially minded masses—

would vote for their particular interests, as well as work and bargain for them; therefore it was not safe to let these particular interests become subject-matter for politics in any large way. The distrust of the dynastic state persisted, with some warrant, as the state gradually became more democratic — that government was best which governed least. This bolstered the *laissez-faire* theory of the beneficence of the free market. In this free market growing masses were left to find their place as best they could — and found it in the slums of the great new industrial towns. Poverty was no new thing, but this kind of uprooted degradation was the peculiar gift of the machine and the free market, applied to human beings.

In England, which took the lead in this movement, the darkest period was perhaps the twenty-five years ending in 1824, during which wages, insufficient for bare subsistence, were eked out by doles, while trade unions were outlawed by act of Parliament. Our own new country was spared the worst of these evils, largely because it was growing so fast that almost anybody could fall on his feet, thereby permitting the individualistic theory to become more firmly rooted and more resistant to change when the need for change became apparent. Wages were higher than in Europe. But by comparison with present American standards, men worked up to twice as long hours for a weekly wage that would buy not more than one third as much.[10] *Children worked twelve hours a day in New England mills.* The system lifted itself out of the depths of this dismal period by the help of growing productivity, growing realization of the extent and seriousness of the evils, growing polit-

[10] As to real and money wages per hour, I am relying mainly on an unpublished continuous index by J. T. Dunlop, produced by splicing existing indexes. As to hours, 70 hours a week seems to be taken as representative in manufacturing in 1850, and for earlier decades substantially longer hours are indicated by data in *Documentary History of American Industrial Society* (John R. Commons, ed.) esp. Vols. V and VII.

ical power of the masses, leading to remedial state action, and growing economic power, centering in trade unions.

The union is the worker's chief anchorage in the economic community. Through generations of struggle it has redressed the balance of power that stood so heavily against him, until now the balance may be tipping too far in the other direction. Not all the great gains in real wages that have been made are due to union action; but so far as they are, there can be little doubt that the effect has been prevailingly good for the health of the economy. But a union is not just a social unit, it is a monopolistic organization seeking gain at the expense of other units or groups, by the kinds of tactics common to monopoly, and operating under protection of law. In this capacity it is socially safe only so long as its power is limited; and its power is growing, with no clear and definite limits in sight.

If we succeed in building a community out of these conflicting groups it will necessarily differ from the medieval community in three basic ways. It must be largely voluntary rather than based on authority. It must be largely built on quasi-federative relations between groups rather than solely on direct relations between individuals and a supreme power. And its structure of rights must maintain flexibility. Structures of rights are already being rebuilt after a period when the supreme right was that of individual free contract; and while many of them are defined by collective contracts, they are showing a strong tendency to settle into fixed status, including protections for differences in status which, though recently achieved, quickly harden into molds of custom. This hardening tendency needs to be resisted, and the structure kept flexible enough to assimilate the impacts of the technical changes that we must expect will go on in the future as they have in the past.

Meanwhile the state remains the one supreme representative of the community as a whole; and it cannot abdicate

that position, though it can lose its liberal character in trying to keep order among warring groups. And in its capacity of rendering community services it seems to be in danger of developing from the policeman state, which merely told people what they must not do, into the Santa Claus state, to which people in general look for handouts, with no thought of reciprocal obligations. Handouts are brought under the blanket conception of liberty by redefining liberty to include providing people with material means to whatever they want to do.

This conception needs to be used with extreme caution; otherwise it could too easily be extended to wipe out the distinction between a free society, in which material goods are achieved, and a paternalistic one in which they are bestowed. The truth that it contains could more soundly be expressed by starting with an obligation on the members of the community to use the powers and resources available to them to do some proper part of the whole community job, whatever their proper part may be. Normally it would start with the duty of self-support. On this one could safely predicate an obligation of the community to see that the members do not lack the means to make their contribution. We are visibly growing toward that two-sided conception. When we have grown fully up to it, we shall have a right to consider that we have become once more an organically constituted society, after a lapse of several centuries.

II

The Human Material

Biological Roots and What Grows out of Them

1. *Nature of the problem.*

The preceding lecture left us exploring the job of building an economic community. This job makes demands on human nature of a sort that economists have traditionally ruled out of their special sector of the world; and it forces us to devote our keenest efforts to meeting just those needs which the economic system has sadly neglected. We need to know more than we do, and vastly more than economics has generally permitted itself to try to know, about the human material of which a community must be built: about its motives, reactions, capacities, and needs.[1]

The inquiry will not be purely biological, but it will start there, if only because, of the various pertinent approaches — including anthropological and psychological — the biological has been until very recently the most neglected, and therefore is the one which may best repay exploration. And I shall not probe deeply into the findings of biological science — something for which I have no competence. By way of partial compensation, experience proves the dangers

[1] A notable exception to the prevalent deliberate agnosticism is Z. C. Dickinson: *Motives in Economic Life*. Dickinson is not disposed to upset existing economic theories, originally based on earlier and more hedonistic psychology. I have dealt with some psychological issues in "Economics and Modern Psychology," *Journal of Political Economy*, Vol. XXVI (1918), pp. 1–30, 136–66. Reprinted in *Preface to Social Economics*, Chapter iv. Fatigue as a cost of industry is discussed in "Economics of Overhead Costs," Chapter xviii.

of building too confidently on ideas that lie on the tentative and controversial frontiers of kindred disciplines. For example, Veblen built rather heavily on mutation theories, and now biologists appear to be swinging back toward theories of small variations.[2] And Watsonian behaviorism would have been an unsafe ground on which to build. Perhaps the chief body of thought that cannot be ignored, but that a layman in psychology cannot confidently appraise, is the psychology of Freud.

But I believe there is much to be learned merely by developing the implications of the basic hypothesis that man's psychic nature and behavior-patterns, as well as his physical body, are the products of ages of evolutionary variation and selection.[3] And I hope this layman's effort may help stimulate the recent movement among competent biological students to investigate further the social and economic implications of their science. Man has "reason," assuredly. But do the conceptions of a century ago tell us truly what "reason" is? A more revealing approach, simplifying some of the otherwise insoluble dilemmas with which philosophy has wrestled endlessly, seems to rest on the hypothesis that "reason" is a faculty developed out of man's biological past by a process continuous with the development of the lower animals.

Yet these conscious faculties, carrying with them the traits that mark their lowly origin, are reaching into the exploration of the structure of atoms and of galaxies. Man

[2] Veblen "The Mutation Theory and the Blond Race," *Journal of Race Development* (April 1913), pp 491–507, "The Blond Race and the Aryan Culture," *University of Missouri Bulletin*, Science Series, Vol II, No 3, pp 39–57 Cf Julian Huxley: "The Biologist Looks at Man," *Fortune* (December 1942), p 140. H S Jennings: *The Biological Basis of Human Nature*, Chapters I–IV, VIII, XIV, and pp 218–21. Jennings shows inheritable variations as occurring in genes, many genes acting jointly to produce most "unit characteristics" of an organism His discussion of the effects of environment defies summary in a footnote.

[3] Cf. E L Thorndike *Human Nature and the Social Order*, pp 190–1.

is not just man — a distinct order of creation — he is part animal, and part a sort of very incompetent god, and just now a very frightened one, making and destroying worlds without knowing what he is doing. And he has to live in the worlds he makes, and they in turn make him, through what we prosaically call the influence of environment, into something he had no deliberate desire to be. His atomic world cannot simply extinguish the jungle nature that he still carries with him; it must somehow make terms with it.

2. *Selection and survival value.*

In some fashion, as our planet cooled to a point permitting water to liquefy, there came into existence living organisms, in vastly greater numbers than could survive. They reproduced themselves with variations, some of which were significant enough to make a difference to the organism's chances of survival, and those that were on the whole favorable to survival and reproduction tended to multiply, and unfavorable ones to die out.[4] So, in a cumulative process, beings developed, adapted to the main conditions of survival — climate, food, enemies — as they were found in the primitive world. The beings adapted themselves, not their environment; and survival value typically meant survival for a small minority — that was sufficient.

We are interested not so much in bodily characteristics as in ways of reacting.

3. *Instinctive patterns.*

First come the relatively unvarying reactions, simple reflexes and especially instincts. For our purpose an instinct

[4] Significant variations for this purpose are those occurring in the genes, not individual variations due to recombinations of genes from different parents.

may be taken to mean an inborn system of actions such as, in the realm of "intelligent" action, would require a purpose, an adaptation of means to achieve it, and a deal of learning of the necessary technique. It is said that a merganser chick, allowed to fall into the water as it chips its way out of the shell, will dive, swim under water, come up under any available cover, and look around as if for possible enemies. And the social organization of ants and bees is familiar, with its marvelous division of labor, and subordination of the individual to the group.[5] Its weakness is its lack of adaptability. The warrior ant will die in reach of food if deprived of the services of the valet ant, its biologically determined partner. He is even more dependent than modern city-dwellers on their electric lighting system, their transportation mechanism, their milk supply.

The development of organized community life on this basis, marvelous as it is, seems to find its limits rather soon. Emergencies find such creatures unprepared, and an enemy who can foresee their too automatic responses can use them to the animal's destruction. Any substantial advance requires, not learning new ways, but breeding a new biological species. So the future rested with the descendants of the more individualistic primates.[6] Man, who has to learn to swim, can learn more effective ways of swimming, and many more important things. So it is both his strength and his weakness that he has accomplished his triumphs with no demonstrable improvement in mental capacity since the Greek city-state, or probably since earliest neolithic man, five or six thousand years earlier. There seems to have been little since Cromagnon man painted marvelously lifelike animals inside his caves — presumably as hunting-magic.

[5] Cf. W. Beebe: "The Attas: a Jungle Labor Union," *Atlantic Monthly*, July 1921, pp. 51–8.

[6] Julian Huxley claims that apes — in fact, all species other than man — have become specialized to a point that precludes further evolution. Op. cit., p. 146.

It is a strength because, though learning is hard, and a long, dependent childhood is a burden, learning can still proceed so much faster and less painfully than biological evolution would breed new species, with new inborn techniques. It is a weakness when a complex civilization, combined with an aspiration to run it democratically, between them make a demand for higher personal qualities than the average man possesses, to enable it to hold together without total coercion and to make our techniques our servants and not our masters.

4. *Man, the malleable individualist.*

Man has little in the way of specific instincts of the sort we have been discussing. Instead, he has inborn impulses and capacities of a general sort, capable of taking many specific forms and attaching themselves to many specific objects.[7] There may be born fighters, but not born machine-gun operators. Some of these traits, having an inborn basis, are inherently social, like family solidarity and the broader gregarious impulses. Some are naturally individualistic, like hunger or the impulse of self-preservation. And some are capable of attaching themselves to either kind of object, like the impulses to prestige or power, or to success or efficiency in the pursuit of any ends. For our purpose it is peculiarly important that these malleable impulses should be given a setting that directs them in useful ways. Man is the animal who has conflicting impulses. He is both an individualist and a social animal, but he can neglect or warp the social side of his nature, or the conditions of its development and application may be neglected or warped in the training of children, or in the institutions men build around the ways able innovators have found for making better mousetraps.

[7] Cf. E. L. Thorndike: *The Original Nature of Man.* Also C. H. Cooley: "Heredity and Instinct in Human Life," *Survey,* January 1, 1923.

The individual may simply extend his feeling of self to a group, where it is a question of the group against nature or against outsiders. Thus the normal individual extends his feeling of self to his family in his dealings with the world outside, and the "economic man" is for many purposes a representative of a family unit. Within the family there is conflict, and warring impulses have to be repressed or turned into constructive channels, from earliest childhood. In wider contacts one element is the natural sense of equal justice or fair play, which hardly goes beyond mitigating the methods of combat in a simple society of equals.[8] Or the feeling of group kinship may be extended and educated into a basis for real co-operation. Or the self-interested impulses may be enlisted by disciplines, using rewards and penalties, either formal or informal. Chieftain and priest learned this art, while normal man is subject to informal discipline by his fellows, because he has a basic need for their approval, and their disapproval can be a powerful sanction.

5. *Conscious states.*

The creature capable of this progress has two distinctive characteristics. He is essentially a conscious being — or, should we say, at least partly conscious? His actions cannot be well understood without reference to conscious states. And he is an individual; his innate equipment does not ordain a standard racial pattern of behavior, but leaves him a wide range of the kind of unpredictable variability we call "free choice." He has individual values, individual purposes, and the power to follow them at the expense of the group. With such a being, co-operation and order are not biological mechanisms, but either triumphs of planned co-

[8] See below, pp. 52–3.

ercion or moral acts. In either case they are painfully and precariously achieved, not foreordained.

Sensations of pain or fatigue serve as warnings of physical injury or wear and tear. Emotions are known to be accompanied by physiological changes, via the ductless glands or otherwise, often reinforcing the body for the crisis it has to meet, as when the heart beats faster and the blood undergoes a change preparing it to coagulate more quickly if the creature is wounded, or excitement makes one temporarily unconscious of injury and able to exert strength beyond one's normal powers. Affective states — constituting, or accompanied by, the "pleasure and pain" of the hedonistic calculus — presumably had survival value because they reinforced the tendency of the organism to persist in successful activities and perpetuate salutary conditions, and vice versa, though they do not explain what things give us these feelings.[9] And all these states have one limitation in common: they are not infallibly serviceable.[10] Anger, or the paralyzing type of fear-reaction, is sometimes useful and often not. They need intelligent and discriminating governors.

Many of these elementary conscious states appear to have the rudiments of this higher function of discriminating control, serving to interpret a complex combination of specific stimuli in terms of their significance for the individual — like the various symptoms of hostile intent on the part of another animal, coupled with indications whether it is dangerously formidable, whether escape is possible, and so on. Thus reactions are both simplified and made more discriminating.

[9] Cf. E. L. Thorndike: *Human Nature and the Social Order*, pp. 17, 103.

[10] Cf. ibid., pp. 105, 199.

6. *Learning.*

The process of learning appropriate ways to meet new situations starts with random movements, goes through the course of trial and error, and ultimately reaches the dignity of organized and intelligent experiment.[11] An animal put in an enclosure will commonly find its way out sooner or later, but may not improve by experience. A great step in advance is made when it learns to recognize the successful series of movements and repeat them, even though it repeats the nonessentials with the essentials — typified by Charles Lamb's story of burning the house down to roast the pig.[12]

A further great step is made when man learns to analyze out the essential elements of his successful trial and discard the non-essential. He does this by recognizing new combinations as involving simpler elements with whose uniformities of behavior he is already familiar, so that he knows what to expect of them. He thus feels that he "understands" the process, and builds up a working notion of "cause and effect." This operates in two great areas, dealing with inanimate things and with other conscious beings. An animal probably reaches this stage of "understanding" earlier in dealing with conscious beings, since he has the key to understanding in the similarity of these beings to himself. When he has reached this stage, he may be able to make a fairly appropriate reaction without preliminary random trials, if the situation is not too novel.

One important contributing factor in the learning process is imitation. In learning, one imitates one's own first successful movements, but by the same route one can acquire the fruits of others' learning, and it can spread through a social group.

Another pregnant factor is language. As a means of com-

[11] See E. L. Thorndike: *The Psychology of Learning.*

[12] Charles Lamb: "A Dissertation upon Roast Pig."

munication it may aid the spread of imitation and at the same time make it more understanding and discriminating. It also makes possible teamwork, with division of labor, and co-operation under direction. Without these co-operation would be limited to the simple forms in which the members of a group all do the same thing.

But language also develops thought. One can visualize a mechanism and its operation without words, but to make another see it takes a mental process before one is ready to use words or pictures for transmission. To communicate a feeling, define a location, or describe an activity, one must formulate one's state of mind about it to oneself before communicating it, and thus mental concepts are developed and defined. Behaviorists went too far in claiming that thought was nothing but unuttered language, but much thought gets its form that way. In making decisions language furnishes many of the pegs on which we hang our images of absent objects and of the degree to which one action precludes another. The judgments: "I can't afford this," or "That is bad business policy," are severe simplifications of very complex bundles of alternatives.

Words are supplemented by the language of pictures, and later by the devices of numbers, graphs, and algebraic symbols, which bring into being forms of abstract thought not otherwise possible. Indeed, man might be defined as the animal that thinks in abstract concepts. More subtle are the overtones, charged with feeling, with which the various kinds of communication surround the images they transmit; until, in the case of clichés, little is left save vague overtones, and language is used to evade thought instead of to formulate and transmit it.

The classification of concrete things into categories is an indispensable simplication of thought. When the categories become abstractions, charged with feeling, we have the absolutes, like "right" and "wrong," or epithets like "Fascist"

or "scab," in terms of which so much distinctively human thinking is done, and which so often take the place of specific weighing of particular alternatives. These absolutes are necessary concessions to man's inability to figure out, in every separate case, what is for the greatest good; but they can become ruthless unless he learns to make exceptions, as in clear cases where it is more harmful to tell the truth than to lie.

7. *Rational anticipation of consequences.*

Man is now ready for a momentous further step, projecting his understanding forward into a rational anticipation of the consequences of familiar acts, even in a new form or combination. This expectation, like his cruder adaptations, is fallible, to the extent that the new features of the situation may affect the expected result. It is capable of different degrees of success on different kinds of material, subject in different degrees to systematic observation and experiment. It reaches its greatest accuracy in the predictions of physical scientists. In important social and economic decisions accurate scientific prediction may be possible for some of the more strictly material parts of the problem, while for others the chances may be calculated but uncertainty will remain; and there will be incommensurables and "human equations" not resolvable into a process of calculation. Here the best response is on the model of the "calculated risk" taken by a good military strategist, who has a chess-player's capacity for tracing consequences of alternative courses many moves in advance. An example would be the timing of the D-Day landings in Normandy in June 1944.

Ordinary risk-taking is done without either facilities for canvassing the calculable portions of the uncertainties or the strategist's or chess-player's developed capacity for pro-

jecting consequences of alternatives far ahead. Customary ways of acting, or maxims of wisdom, or personal bias, have much chance to sway the result. From this responses shade off to the neurotic; for example, one who is inhibited from walking down the street, apparently because of morbidly exaggerated fears of the kinds of accidents that actually might happen, though the unrecognized causes of the fears lie elsewhere.

Anticipation of consequences vastly increases the capacity of the individual to gain his ends. He can use more indirect means, involving long-term investments for a distant result, or the control of environmental conditions on an increasing scale, as his understanding increases. Also he can make more far-reaching mistakes as his means for gaining ends become more powerful, while his apprehension of consequences remains limited and imperfect. This faculty remains a tool, at the service of his wisdom, or lack of wisdom, in the choice of ends.

Where his understanding fails him, he still wants to effect results; and here myth and magic enter. Between technique and magic there is at first little or no distinction; both are equally essential parts of the process of hunting or growing crops. It is only much later, as organized science reveals the processes that actually determine the results, that the realm of myth and magic is eaten away.

8. *Consciousness as instrument and as end: the coming of conscious values.*

So far I have been speaking of consciousness as an instrument for the more effective gaining of ends. The only end specifically mentioned has been survival, and nature saw to it that many failed to gain this end, the extinction of the unadapted being the key to evolutionary progress. Man's various impulses and drives, contributory to survival, were pres-

ent, like life itself, in superabundance, suited to making head against the resistance of primitive nature. But as man gains his characteristic power to adapt his environment to himself instead of adapting himself to his environment, the resistance of primitive nature is moderated, while his impulses retain their primitive strength and can gain fuller gratification than primitive nature permitted. Now there comes to be a margin of optional activity in which these impulses are competing, not against outside nature, but against one another. With life itself no longer at stake, man must choose what the content of his life shall be. And at this point, if not before, conscious experiences cease to be purely instruments of survival value and become ends in themselves — values in their own right, in terms of which man will come to ask how good the life is that survives, or even whether life is worth living.

Survival value is still a prerequisite, and these conscious activities presumably have it, on balance, though they have led many to suicide and others to religious persecution or to martyrdom. And as man progressively controls and subdues his environment, gaining power to choose his abode at pleasure, to make the earth's resources his own at will, and to overcome or restrain his enemies, mere survival becomes less and less an active issue, and active issues are more and more directed to the question what we get out of it, in the way of conscious values. Any standard we may conceive of what is worth while must be made of this material, since there is nothing else to make it out of; but that is very far from saying that man will get what is most worth while if he is simply left to choose as he sees fit.

Next to survival, what he needs is health, in all its aspects. Health was promoted (not infallibly) by the activities the jungle enforced on him, unwelcome as many of them were. And health is often not promoted by unlimited gratification of various impulses that primitive nature kept always

ungratified. Eating, sex, even security may be overdone, and the wages of transgression is not death. In this area biological selection ceases to afford any assurance that patterns of conduct will be suited to man's needs.[13] That now rests with his own power of optional choosing, using the faculties with which his biological past has endowed him.

9. *Choice.*

Free choosing is the central act of economic life.[14] In a sense, any act is a choice if there is an alternative open, and often the term means no more than that. Much of the time one simply acts on whatever stimulus is presented, or whatever idea is in consciousness. At the other extreme is the idea of "rational" choosing; but a little examination of the meaning of this term reveals it as bafflingly paradoxical and a misleading description of most actual choices. So it is better not to take it as a starting-point.

Choice appears in various forms. What price shall the producer set on his product? Shall the labor leader call a strike? Shall Mrs. Brown buy new curtains? Always there are a stimulus and alternative ways of acting on it — perhaps quite a number of them — simple or complex, definite or vague. If one course is rejected, the conscious alternative may be to do something else or to do nothing and let nature take its course. Deliberative choosing often serves as a rather imperfect check on the tendency to act on whatever stimulus is immediately present or whatever idea is in consciousness. It implies resistance, generally an expression of stimuli not immediately present, which may be acted on. At its best it includes some anticipations of the future consequences of

[13] Cf. E. L. Thorndike: *Human Nature and the Social Order*, pp. 112–13.

[14] Cf. Z. C. Dickinson: *Motives in Economic Life*, Chapter xii. For an elaboration of the corollaries of rational choosing, see G. P. Watkins: *Welfare as an Economic Quantity*.

different courses of action — anticipations that are generally imperfect. Out of these is forged the capacity to conceive a purpose and hold to it, as distinct from momentary desire and in the face of rival stimuli.

The basic process may consist in bringing to mind alternatives and "comparing" them, or simply looking at them one after another until one wins the election and the individual acts on it.[15] He does not need to be intellectually convinced that this course will yield the best results (though if he is convinced of the opposite, he will reject it). It is enough that it holds his attention — as advertisers well know, expert as they are in the art of irrelevant summation of stimuli. Normally the present stimulus has an advantage. But the motives that make one stimulus the stronger may be conscious or unconscious; they may consist in calm anticipation of material benefits, or friendship, or resentment at past grievances and urge to retaliate, or a balked impulse to power, seeking an outlet and finding ready to hand a destructive outlet that would injure all parties and cure nothing. All that deliberative choosing strictly implies is that alternatives are given a hearing.

This in itself tends strongly toward consideration of consequences and away from blindly destructive action, but it is no guarantee. Even so-called "rational" choosing merely implies that one obeys the motive that is actually strongest when one avoids a snap judgment and turns the light of one's whole personality on the problem. It also implies that one knows the facts about the consequences of each alternative, and to what extent one precludes the other. And of course, in the more important decisions, one's knowledge of the facts is sadly imperfect; and the job of canvassing could consume all one's time and energy, without reaching a per-

[15] This conception goes back to William James: *Psychology*, Chapter xxvi. Cf. E. L. Thorndike: *Human Nature and the Social Order*, Chapters vii, viii, xiii.

fect conclusion. But there is no need to detail the difficulties and limitations of this process; we have been considering them in the preceding lecture, where we were trying to weigh the different objectives our society might want to pursue, and we saw that there is no escape from a deal of uncertainty.

In fact, it is really of the essence of this process that it is used to explore a situation that has something new or unfamiliar about it. If the present and future repeated the past without change, these matters would be handed over to habit and custom. So deliberative choosing is needed only in those cases in which it cannot work perfectly.

This is qualified by the fact that some choices are a matter of alternative means to a common end, and some can be reduced to actual calculation, or calculation can greatly clarify the nature of the alternatives. And for some kinds of choices fairly adequate information is available, and market mechanisms furnish a good deal of it. In some kinds of cases it is even fairly dependable. Truth in advertising may be better approximated, on the whole, in the marketing of commodities than in that of political proprietary remedies; but in either case it is not safe to trust it entirely to market self-interest and the rule of *caveat emptor*.

On the whole, the choices of goods one buys in markets afford a wider range of selection, and better assurance of getting what one wants, than other kinds of choices, though they include, for example, patent medicines that may be habit-forming or otherwise dangerous to people with special idiosyncracies. Many people have biases that render them specially susceptible to one or another brand of specious appeal; and wherever this is true, advertisers can be trusted to discover the weakness and exploit it. Most consumers cannot protect themselves in the matter of safe housing construction. And the offerings of the market affect standards of taste, morals, and culture, for better or worse; it seems

on the whole easier for the market to profit by debasing these standards than by raising them.

Protection in this area must rely heavily on other motives and pressures in addition to those supplied by the choices of individual consumers. And the things we found most important to a sound community are not things for which individuals are in a position to express an effective demand in markets. They require collective wisdom, and action by groups, society, or the state.

Independent deliberative choosing on all matters that face the individual would overtax his capacities. He must, in his own interest, accept a great deal of guidance. His underlying freedom, which he does not like to surrender, is freedom to choose his sources of guidance. But even here society has an interest in seeing that the best sources are easily accessible and are favorably presented.

Granting that the individual's decisions are not infallible, are there any other umpires available that have a claim to better standing in telling him whether he is getting what he "really wants"? The answer is yes. John Stuart Mill recognized that there are higher and lower desires, and accorded superior validity to the judgment of the man who is capable of both, as against the actions of men insensitive to the higher experiences.[18] Hindsight is proverbially sounder than foresight; but many market choices do not allow one to benefit by it. The social critic, however, can draw evidence, not only from the market choices people have made, but from their own subsequent judgments of the goodness of those same choices. Assuming, as is fair, that the normal man wants health, the doctor can tell him what will promote it. Assuming that he does not want his society wrecked, a conference of students of social problems — not

[18] J. S. Mill: *Utilitarianism, Liberty, Representative Government,* Everyman ed., pp. 7–8. Cf. E. L. Thorndike: *Human Nature and the Social Order,* pp. 351–5.

necessarily academic students—can tell him a great deal about what kinds of private action endanger social stability and coherence. Any serious student of such matters can usually tell the man in the street things he would do well to consider, just as the man in the street knows his own particular corner of society well enough to inform the student about it.

And political agencies, with all their shortcomings, serve to bring together the views of more of these interests than are ordinarily represented in other ways; and their judgments, while not uniformly the best, often have a wisdom in their compromises which the specialists do not always show. The problem is to make the best combined use of all these agencies, supplementing and correcting individual freedom of choice without destroying it.

10. *Rationalization.*

"Rationalization" is a perversion of rational choosing. The best definition of rationality is probably consistency; that choices should be consistent with one another and with the individual's general scheme of life and values, so far as he has one. The fact that conflicts occur and that choices are difficult means that he does not have an over-all scheme that is definite enough to settle all problems automatically. The best way to handle a conflict is to admit it, and frankly choose, as nearly as possible, what will appear the lesser evil when one "thinks it over" with the benefit of hindsight. A less sound method is regularly followed when one of the impulses is not socially presentable and perhaps is unconscious. This is to explain away the conflict by the process known as "rationalization."

This usually takes the shape of concocting a reason for what one wants to do, different from the real reason and more consistent with that "better self" which one likes to

present to one's fellows. The process is most baffling when it is most sincere. A cramped individual feels resentment and formulates a grievance that will justify bellicose action, but that may have little to do with the actual cause of the resentment, so that winning his case will not remove the source of the trouble, which he very likely does not understand. This is a case for shrewd and expert diagnosis, or else remedies will not reach causes. Common sense and goodwill are not always sufficient. Thus peculiar difficulties are faced in the rectifying of long-standing social maladjustments.

11. *Static elements: habit and custom.*

Habit and custom are conservative factors, but that is not their whole service.[17] Properly used, they help us make new adjustments. Without their help, individuals and societies could solve few new problems, because they could not concentrate on any one long enough to make much headway with it. Habit and custom enable them to take care of most needs fairly satisfactorily and more or less automatically, while focusing energies on one fresh problem after another.

But their value is subject to obsolescence as conditions change and old habits and customs cease to be adapted to the new circumstances. Nowadays this kind of obsolescence goes on at an appalling rate. Consumers' habits of buying become useless when faced with a bewildering variety of new products and raw materials, and mobilized information and guidance are needed to supplement them or to take their place. Much the same is true of customary relations of employer to employee, and of the state to the economic system in general. This is one of the heavy and inescapable burdens of an age of transition.

[17] Cf. E. L. Thorndike: *Human Nature and the Social Order*, pp. 208–20.

12. *Distribution of capacities: the competence of individuals.*

One of the most crucial facts determining the kind of social organization for which a people is fitted is the way in which capacity is divided among them — the proportions of superior and inferior types. If the general level is low, a free or democratic system can hardly work, though a "great society" may be organized under the direction of a superior few. Or if all were ideally "rational," any system would work, and a collectivist system would be able to get rid of the wastes and stagnations that plague the present structure, while avoiding the dangers of totalitarian coercion. It would not be needed, since a people of that kind would maintain order without it.

If there is a high percentage of people with superior capacity and a moderately good level of general competence, this makes private enterprise workable. A strong infusion of the competitive impulse keeps it tolerably free, while the limitations on our social capacities make it highly expedient to utilize self-interest, as private enterprise does, but leave great areas of social need imperfectly cared for.

John Stuart Mill's classic essay on liberty revealed the conception of the population on which nineteenth-century liberalism rested.[18] It applied to a population of normal adults; some good and wise, some vicious or foolish, but all — or most — capable of handling their own interests better than others could do it for them, and of developing this faculty by its exercise. They made mistakes, but were capable of learning, and they had the right to learn for themselves, free decision being the highest exercise of their faculties, and essential to the full development that is the greatest good.

[18] Op. cit., especially pp. 73–5, 164–7. Cf. E. L. Thorndike: *Human Nature and the Social Order*, Chapters ix–xii.

This picture of the population has been changed radically by the results of modern intelligence-tests and the findings of psychiatry. Intelligence-tests reveal continuous gradations of capacity, and disquietingly large numbers below what we liked to think of as normal standards. The results are not too easy to interpret; and we should not be stampeded into alarm by findings indicating an adult population whose average mental age is that of a youth just entering adolescence; but it seems unsafe to base economic organization on former ideas of the predominance of competent normal adults. Similarly psychiatry, in describing the characteristics of neurotic types, reveals weaknesses, and warpings of conscious action by subconscious anxieties and conflicts, which every individual possesses, though in most cases the impairment of personal effectiveness does not pass the shadowy line of the pathological. One thing both types of study suggest is the presence of large numbers who are capable of doing something that will earn a fair living, but not capable of steering the course of their lives wisely, or of contributing to difficult social decisions by anything more than registering their own superficially obvious personal interests, sympathies, or antipathies.

These people can meet the easier responsibilities of a free-market system, but not the more difficult ones. Yet we cannot have one economic system for them and another for the rest. So we face the problem of providing social safeguards that may protect the inferior individuals against shipwreck, while leaving an ample range of freedom for all who can take advantage of it.

13. *Needs of human nature, and the pathological results of failure to meet them.*

Man needs to be a healthy animal, and to do his job as a member of society. For the first purpose the requirements

may be summed up as a well-rounded exercise of his innate capacities, adequate but not excessive, and consistent with the requirements of social living. His body is adapted to vigorous physical combat, the chase, and varied exertion, to the point of moderately unpleasant fatigue, which develops it. His senses are adapted to alert perception, his feelings to appreciation of beauty, to courageous facing of danger, and to the thrill of more moderate uncertainty. His mind is adapted to prudent avoidance of danger and uncertainty, and also to solving problems on which his welfare depends. His social faculties are adapted to sharing the efforts and dangers of his fellows, to seeking recognition for superior performance in some worth-while field, and to submission to someone or something he recognizes as superior to himself, be it personal ruler or tribal code, abstract ideal, or deity, to which he transfers some part of the heavy burden of responsibility for his fate and that of those dependent on him.

Some of these capacities he may exercise if left to his own devices, and some he may neglect; for some he may have the urge but lack opportunity or socially permissible occasion — for example, the combative faculties — for others he may need incentives, even compulsions. His life is divided into work (activity with an ulterior reward attached) and recreation (activity or passivity undertaken for its own sake), and the quality of his activity in working hours may be far more important than his recreations as part of a good and healthy life, and much more likely to be neglected in modern industrialism. Urban work makes lopsided demands on men's faculties, for which recreation may or may not compensate. One may sublimate one's fighting impulses in competitive sport, or one may sit on the bleachers and engage in vicarious combat, or the impulses may break loose to disturb the peace in industrial relations. An impulse to adventure and excitement can find a fabricated outlet in an

otherwise uneventful life through gambling, which is a very old and very widespread impulse.

In general, impulses not literally gratified may or may not find substitute outlets. The things that prevent gratification may be external obstacles, including social vetoes, or they may be one's own inadequacies, or fears or resentments, the original cause of which is buried in one's unconscious mind. If no outlet is found, there is a chance that impulses may go sour in the individual's nature, leading to abnormal states of mind and will, to neuroses, to a pathological impulse to power as a compensation for weakness, and to destructive activity for its own sake, probably rationalized with the aid of some grievance irrelevant to the cause of the condition. It is characteristic of such conditions that the action to which the individual is impelled may, in terms of consequences, be wholly harmful, even from his own standpoint [19]

Repression is not peculiar to any particular civilization. Primitive nature did plenty of repressing and inflicted plenty of suffering; but primitive man must have accepted this quite simply. Combine it with certain ideas about God and the universe, however, and it becomes "the problem of evil"; the Book of Job is written about it. Combine it with absolute canons of right and wrong conduct, which, as we

[19] This refers, of course, to the Freudian psychology A simple summary for the layman, with economic applications, can be found in George Soule *The Strength of Nations*, Chapters IV–VI The late Carleton Parker, in *The Casual Laborer and Other Essays*, made applications of Freudian balked disposition analysis to impulses other than sex (largely drawn from McDougall) and applied the result to interpret labor unrest More recently Karen Horney, in *The Neurotic Personality of Our Time*, gives a neo Freudian psychiatrist's sanction to this kind of broadening of Freudian analysis She thinks the admitted prevalence of sex related disturbances is due partly to our culture having subjected sex impulses to peculiar repressions also that we overemphasize these impulses, partly as compensation for the individual's feeling of emotional isolation in a competitive society

have seen, do not differentiate perfectly between situations and come in conflict with one another, and you have the "problem" of the inherent inescapability of "sin," even for the best of men. Let a human employer or a man-made institution, instead of primitive nature or deity, become the repressing agency, and the problem involves resentment and the urge to do something practical about it. So the stresses of civilization may be due not so much to the amount of repression as to the form, combined with refractory aspirations that civilization develops.

Karen Horney suggests one basic anxiety and three types of conflict, all arising from our current culture and capable of leading to inner disturbances if the conflict is particularly severe or the individual's personality is weak or susceptible. The anxiety arises from the feeling of isolation in a competitive culture, which may be too much for an individual who has "apprehensions and uncertainties" about himself.[20] The conflicts arise between competitive striving and "brotherly love and humility," between commercial stimulation of wants and limitations on power of gratification, and between theoretical freedom and actual limitations. "These contradictions embedded in our culture are precisely the conflicts which the neurotic struggles to reconcile."[21] Broadly construed, they may be the inescapable conflicts of any free and fluid system in which widespread opportunity to rise arouses still larger and more widespread ambitions, most of which must inevitably be disappointed.

All this has a fairly obvious application to the need for unions, and also to the pathology of industrial relations. It seems possible that the mass mind of a group may develop a neurotic condition by overstimulating attitudes that, in most of the individuals concerned, would not be carried beyond the bounds of normality. Or perhaps a simpler expla-

[20] Op. cit., p. 286; cf. p. 89.
[21] Ibid., p. 289.

nation lies in the opportunisms of union politics on the one hand, and the resistance of power sanctioned by custom on the other.

Where psychological disturbance verges on the pathological, the individual cannot be trusted to know what is the matter with him. And the experts do not know too much as yet about what kinds and degrees of repressions are positively harmful and what kinds of substitute outlets will work the necessary release of tension. But a general knowledge of the nature of the problem indicates the general direction of remedy. The most important product of industry is what it does to the lives of the people who work in it; and for its own safety it needs to contribute to making well-balanced individuals whose social faculties are neither atrophied nor perverted.

This view of the harmfulness of some repressions is a far cry from the conventional economic approach, which leaves on one side all questions of pathology, or of the inherent incompatibility of different impulses, and builds its whole structure on the conception of marginal limitations of the extent to which one gratifies different impulses, each of which is equally legitimate (for the economist as such). The limitations are conceived as wholly voluntary and arise from the lack of time, energy, and economic resources to gratify all impulses as far as one would like.

This approach gives only part of the picture of human needs, choices, and requirements, and for our purposes it leaves out some of the most important parts. In particular, it dismisses the shortcomings of individual choosing as personal matters, separate from the serviceability of an economic system that affords the individual free opportunity to do as well as his capacities permit. In the view we have been examining, some of these shortcomings appear as partly results of the character of the economic and social system, or at least things for which the economic system

needs to furnish positive antidotes, whether it is to blame or not. They are part of its pathology, calling for remedies.

In their basic physical needs, men are much alike, with differences about which doctors know a great deal; and the conventional economic view that we know nothing about the relative importance of things to different people is clearly the least probable hypothesis one might adopt, and an unwarranted limitation of perspective.[22] Wartime rationing of fuel and other essentials is sound, admitting all the crudities of the measures of need that it is feasible to use.

In matters of temperament men differ widely, and society needs variety. It even needs that some should be able to meet their needs more fully than is possible for all — strict equality, beyond a basic minimum, is not a valid standard. Fortunately, men on the whole, and with exceptions, actually want to exercise their faculties, including their social faculties, and have considerable ingenuity and conscious or unconscious wisdom in devising ways to do it that fit the requirements of social living. We may all have elements of Freudian neuroses in us, but that does not mean that we are all neurotic. Thus the standards of individual and social health we have been discussing do not lead inevitably to a population regimented under the direction of psychiatrist dictators. There is plenty of room, and of need, for free diversity.

14. *Man is a social animal.*

We now come to a group of characteristics that either urge directly toward social co-operation or can be utilized

[22] This limitation has gained vogue of late, following Lionel Robbins: *The Nature and Significance of Economic Science*, 2nd ed., pp. 136–43. A general policy committee, such as these lectures contemplate, is naturally exempt from the limitations Robbins proposes for economic science as such, even if his views on that point should be accepted. Cf. E. L. Thorndike: *Human Nature and the Social Order*, pp. 182–3, also p. 556.

in that direction. Man is not naturally solitary: he must have something he belongs to. He has a basic urge to work with his fellows, to gain their approval, and to be a member of a group in good standing. He will do and suffer much rather than earn their condemnation. The chief trouble is that nowadays the groups that command this loyalty are, for most purposes, special groups with interests in conflict with others.

Even man's dramatic impulse is at the service of the social urge, since he is surprisingly ready to assume a variety of roles as representative of group or social interests. We live in a world of boards and committees, in each of which the members are assuming a representative role for some group interest larger than their own. But while this faculty is surprisingly strong and adaptable, it does not extinguish possible conflicts between the interest of the group and that of the representative as an individual. It needs to be strengthened by codes of ethics for such relationships, and these may need some means of enforcement. The recognized professions have such codes, and society leans heavily on them, and will do so more in future.

Actual conflicts of interest may be mitigated, as we have seen, by the natural sense of justice and fair play, which sets limits on the tactics employed.[23] It does not end conflicts or turn them into socially useful channels, but centers on equality of weapons and tactics, and strengthens resistance to aggression by adding the force of just resentment. It can do a good deal in a society of equals, where rights are similar and generally recognized. But a differentiated society needs something more sophisticated and discriminating. It needs people with imagination enough to be open to some limited conception of what they would feel was due them if roles were reversed — if the landlord were the tenant, or the

[23] E. A. Ross: *Social Control*, Chapters vi and vii, develops the capacities and limitations of this faculty.

worker were the employer. This is a faculty that can be developed, and needs to be, but it does not come easily to unregenerate man, or to political man.

15. *Instrumental activities can become ends: the "instinct of workmanship."* [24]

Man has one illogical but very useful trait whereby, when an activity is undertaken as a means to some ulterior end — as work is — it can come to command our interest in its own right and become an end in itself. The difference is far more important than a purely rational psychology would indicate. It rests on the distinction drawn by William James between voluntary and spontaneous attention. When we do something merely as a means to something else, we must make ourselves pay attention to it; and this kind of attention soon flags and has to be renewed, and fatigue comes quickly. But if our interest is spontaneous, it is sustained with a minimum of fatigue, we can accomplish more, and we want to do the job well for its own sake, or for our own sakes, and not merely well enough to "get by."

This seems to happen normally if the activity is not one that goes positively contrary to our natures. It is one of the chief secrets of making the most of our powers. But it also leads to lavishing effort beyond what the occasion calls for, or going through ritual technicalities that may actually obstruct the original end in view. And it can reinforce efficiency about as well where the end is parasitic, or even criminal, as where it is serviceable. A man takes pride in being a good workman, but not necessarily in giving his industry, or the consumer, the benefit. He may

[24] While Veblen's *Instinct of Workmanship* is the outstanding economic elaboration of this theme, the trait in question appears to have broader applications.

get interested in the parasitic maneuvers of bargaining as a game, or an economist's theory may become an end in itself to him, to be refined at the expense of realism, rather than a means to the understanding of his world. So this faculty does not dispense with the need for finding incentives to make people do things for society; it merely means that, if such incentives are found, their effect can be self-reinforcing. All of which may be an academic way of saying that people have a gift of getting interested in whatever they are set to do, within reason.

16. *Tapping cosmic forces: myth, superstition, religion.*

To discuss religious ideas on an evolutionary basis is to expose oneself to alienation of one's audience; the major premise being that they will continue to hold views that are poles apart, and will not even all agree with the speaker's wish for toleration of disagreement. To urge my personal philosophy would be out of place; to some it would seem atheistic, to others not atheistic enough. All this argues the wisdom of letting sleeping dogmas lie. Whatever is said should pass the test of contributing to the ends in view.

These ends are positive. The needs and capacities of man for building a community include religious needs and capacities. The search should be for elements contributing constructively to this task. And it should be emphasized that an evolutionary view of the origins of religious ideas is no proof of the soundness or unsoundness of their present forms, but may contribute both toward tolerance and toward acceptance of such evolution as is still going on. The ultimate end is to bring together in the task of community-building people whose religious views will remain diverse.

Man starts interpreting the things he does not under-

stand about his cosmos in terms of the kinds of things he does understand, as the personal doings of benevolent and malevolent spirits. Ultimately comes the conception of a single benevolent, just, and all-powerful being, to whom, in our Occidental theologies, the destiny of every individual is of moment. This structure has been refined as man became more humane, and its cosmology has been partially and tardily adjusted to growing scientific knowledge. It is compounded of attitudes of awe and reverence toward cosmic forces, and of intellectual propositions; of great cosmic and human insights, imperfectly apprehended and formulated, and of logical deductions from these formulations. And logic, thus applied, can be a terrible force. The Inquisition was utterly and ruthlessly logical, granted its premises. The structure includes the spirit of human brotherhood, and formal moral precepts, rewards and punishments, hope of victory for the good and promise of defeat for evil. It acts through effects on personal motives, and through pressure on objective social practices.

The medieval church united theology and moral discipline, controlling economic and social conduct. Its standards were customary, affording both some protection for the common man and a bulwark for the established order. It had temporal power to an extent no longer possible. It was universal, and its discipline was backed by the penalties of a very real and physical hell. The extension of modern business enterprise alone would probably have emasculated this discipline, but the Protestant Reformation robbed the church of the universality necessary to the control of universal economic practices, and extended individualism into the religious basis of ethics, while science was weakening the hold of dogma.

Protestantism temporarily lost interest in objective control of social practices, and was peculiarly exposed to attack by radicals as the "opiate of the masses." Now that

it is trying to make up for lost time in this field, its power is limited by the historically irreversible changes I have noted.[25] Adherence is voluntary, hell has become a vague hypothesis, and the population, in terms of the attitudes religion tries to lay hold of, is bafflingly heterogeneous, including many who are frankly irreligious. The state of Tennessee includes both Dayton, where Scopes was tried for teaching evolution, and Oak Ridge, where the atomic age was born. The church faces no easy task in trying to reintroduce adequate precepts of social morality into an economic structure that is firmly established and has grown up for something like a hundred and seventy years on the theory that it could get on very well without them.

One is tempted to conceive a scientist, unwilling to rely on supernatural forces inconsistent with scientific cause and effect, but in whom science had not atrophied the sense of the common man's apprehension of the things religion deals with, and to ask what he would make of them in a world from which inherited theological and cosmological dogmas had been erased. Would he see that man's social heritage includes external supports, the real nature of which is lost for the common man if they are reduced to the formulas of psychology and social science? Would he see that man's racial heritage includes something in his unconscious being stronger than his conscious faculties, fairly describable as a cosmic force, so that each man includes in himself

[25] Cf Report of Pittsburgh Conference on the Church and Economic Life, Federal Council of Churches, reported in *New York Times*, February 21, 1947, also *Survey Graphic*, April 1947, pp 240 ff Cf "Christianity and the Economic Order," studies issued by the Federal Council of Churches during 1946 and 1947 Cf National Catholic Welfare Conference, "Declaration of Human Rights," *New York Times*, February 2, 1947 The attitude of the Federal Council of Churches has roused opposition among some Protestant elements, as diverting emphasis from basic doctrinal matters Cf resolution of American Council of Christian Churches, a conservative group, reported in *New York Times*, April 20, 1947, Section 1, p. 7.

perhaps a bit of eternity, and surely a bit of the enduring life of the race?

Would he perhaps see that this scientific reality is a part of the universal forces of nature around which men have built their conceptions of gods; and that these conceptions, by laying hold of this reality, come nearer the truth than a blank scientific mechanism that ignores this reality? That it represents a power in which man lives and which lives in man, and does for him many of the things that received religion expresses, in its own way, in countless scriptural texts? I suspect that this is possible, and that such material needs to be a part of religious concepts that can be real to a people to whom scientific ways of thinking have thoroughly permeated. With emphasis on such a conception, differences between particular sects might not loom so large.

One thing such a scientist would surely see is that, to make man's life express the socially constructive side of this racial heritage, it is not enough to preach to individuals whose daily doings are organized on a strictly individualistic basis. But he would also see that the individualistic basis is changing. Impersonal market laws no longer overrule all individual latitude of action and all responsibility. The responsible agencies are only partly social, but they have unused potentialities of a social sort. These need to be made effective in the structure of daily doings, or the revived attempt to make Christian ethics effective in temporal affairs will fail. And we have reached a state in which, unless it succeeds measurably, our civilization will not endure.

17. *Purposes for which motives other than self-interest are needed.*

This does not mean doing away with self-interest or animal impulses. It does not require that everyone should begin to work for the social good regardless of self. It does mean developing agencies by which the socially usable traits of human nature, which we have seen that it contains, are put to more effective use. Our society has relied too exclusively on formal mechanisms for making selfish interests coincide with social, by rewards and penalties. In this respect the requirements of a mixed economy are both more varied and less exacting than those of a completely collectivist state that aspires to remain free and democratic.

Some social motives are suited to securing better quality of community service, in public and private capacities, than mere financial incentives would elicit — though not necessarily at heavy financial sacrifice. Some are adapted to restraining the use of power to exploit others or to consume socially necessary assets. Some are adapted to bringing out the imponderables of human relationships, including integrity and sincerity in the negotiations between conflicting interests which a free society will always have to carry on.

Economic security will weaken some incentives, but may at the same time make others more effective. The fear bred by insecurity is not a constructive emotion, nor the best stimulus to every kind of achievement; and it leads to harmful reactions, like deliberate restriction of output to avoid working oneself out of a job. Or it leads to suspicion which poisons negotiations. Negative incentives, including fear of discipline or punishment, will continue to be needed; but progress means increased scope for positive incentives. It also means increased use of

tangible incentives to supplement the diminishing reliance on material ones, especially material penalties, such as fear of destitution.[26] We need an altered balance.

18. *Summary: the perilous adventure of intelligence.*

If this unconventional excursion into the realms of human nature and human needs has driven home one truth, it is that intelligence is a perilous adventure. It finds ways of gratifying wants that primitive nature did not allow to be gratified. It makes demands on us at which our unconscious nature may rebel. It builds "rational" bases for social conduct and then proceeds to debunk and destroy the bases it has built. It professes principles that sanction and stimulate ambitions which society cannot fully gratify or appease, and which may therefore destroy it.

Man's reactions do not adapt themselves perfectly to the needs of different situations; they are blundering or imperfectly discrimating; and this applies to all, from the crudest instincts to the "highest" achievements, in the shape of ethical absolutes, or moral codes of the specific sort, or the theological creeds that Tennyson spoke of as "broken lights." The creeds leave insufficient room for diverse degrees and kinds of cosmic insight; the codes fail to do justice to the infinite variety of human personality and situation. Our traditional code of "economic virtues" has been transformed and needs a new balance between self-interest and community responsibility. It has ignored man's needs as a social animal and must make a place for them. We have never yet built a "great society" on the combined basis of freedom and progressive social morality. That unprecedented task is what we now face.

Our economic life and thinking have emphasized quan-

[26] Cf. E. L. Thorndike: *Human Nature and the Social Order*, pp. 106–108.

tity of gratifications, of marketable sorts, without reference to what is gratified and what is denied. They have stressed power of attaining ends without reference to the human purposes for which it is used; and power without social purpose has become a Moloch, which has brought our civilization to the brink of chaos and destruction. It is becoming a commonplace that Hitler was able to fill this void largely because he gave his people a purpose. We need no such purpose, nor any overruling collective purpose, except where society itself is threatened. But we do need a collective apprehension of the purposes of a society that understandingly furthers the needs and purposes of its members.

III

Competition and Security

1. *Competition: a harness for self-interest.*

We have been considering what we need, and what kinds of capacities human nature has for getting what it needs. Now we come to the question of agencies or forms of organization. And the chief agency on which defenders of the market economy have relied to keep self-interest within useful bounds and prevent it from becoming oppressive is the system of free competition. Without it free exchange between unequals could still be tyranny and its freedom a sham.

Competition is an outstanding example of an institution that nearly everyone approves, yet almost no one carries his approval through consistently. This is partly a case of the familiar double standard—competition for the other fellow, protection for me—but it is only partly that. It is partly because competition has two opposites: which we may call monopoly and security, postponing for the moment the question what these terms mean. Nearly everyone favors competition as against monopoly, and nearly everyone wants it limited in the interest of security. And hardly anyone pays much attention to the question where one leaves off and the other begins.

In the title of this lecture I have contrasted competition with security, partly because that is the contrast which analysis usually neglects, in its preoccupation with monopoly, partly because security is the approved ground for limiting competition, and partly because the approved

limitations, in the interest of security, are the most extensive and the most powerful.

Competition is our main safeguard against exploitation. In our sophisticated civilization we dare not trust the terms of exchange to tribal custom and sense of honor, as some primitive peoples can. Under self-interest, people of our advanced stage of culture would naturally incline to give as little and get as much as possible; they would increase their gains by reducing their services, by producing less to sell for more. But competition works the simple miracle whereby each one increases his individual gains by increasing his services rather than reducing them: he makes more by producing more to sell for less.

The question how far this price-reducing pressure goes, and how far it is safe and desirable to have it go, is one of the key questions in the nature and usefulness of competition. Put in other words, it is the question whether competition threatens security, to an extent requiring some kind of protection. On this theme we might imagine a colloquy between prosecution and defense running somewhat in this fashion:

Prosecution: How can everybody get rich by selling for less? That is the way to make everybody poor.

Defense: You get rich by having other people sell to you for less. And if you sell for less yourself, you haven't lost as much as you have gained. The essential thing is that, in trying to gain by selling for less, people produce more, and that extra product remains and is not canceled out. Some individuals may be ruined if they sell for too little — it's up to their common sense to stop short of that. But how can everybody get poor by all producing more?

Prosecution: When prices and wages all go down together in a slump, that seems to make the slump deeper, not lift us out of it. And in ordinary times millions of workers have injured their health and grown prematurely

old, farmers have mined their soil and made dust-bowls, and irreplaceable treasures of coal and oil have been criminally wasted.

Defense: I grant you these abuses are serious; the level of competition needs to be protected to prevent that sort of thing. And it ought to be possible to mitigate slumps, so that wages and prices would not be driven down to destructive levels. But if you let people peg their own wages and prices, then you are back in the condition in which they are all trying to get rich by selling for more — which can't make them all rich — and producing less, which ends by making everybody poorer. We may have to set limits on competition, but we can't afford to abolish it. It stimulates production; and if it is reasonably equal and fair, it safeguards distribution against the building up of privileged classes.

Prosecution: The little man hasn't a fair chance against the big one; and the majority of business enterprises end in failure.

Defense: If the big man wins by efficiency, that is the customer's gain, meaning everybody's. If he wins in other ways, we should try to improve the rules so as to prevent it. If failures simply eliminate the inefficient, that is the price of progress.

This debate could go on for a long while, but perhaps the main points have been made. Returning to our key terms, "security," which has good associations, suggests safeguards for the essential needs of the little man, while "monopoly," which has bad associations, suggests swollen gains for the big man. The accepted view seems to favor the first and oppose the second. But the ends of security may be sought by the methods of monopoly; and the size of an interest is no sure index of whether it is seeking to protect the minimum needs of solvency or is out for all it can get.

2. *General nature of monopoly.*

Monopoly means, primarily, unified control of the supply or price of what can fairly be thought of as "one product" or one kind of service. For this purpose I shall adopt the common-sense view that, for example, automobiles as a whole constitute one product, and that the Studebaker Company is not a monopoly merely because it is the only maker of Studebaker cars. Secondarily, monopoly means power to exclude others from imitating a particular process, or a feature of a particular product, or from rendering a particular kind of service. Thus a patented product is a monopoly; but a differentiated product that others are free to imitate as closely as they please seems better described as competitive.[1]

The academic stereotype of the law of monopoly price pictures it as a pursuit of maximum profits, governed by two curves. The first shows how much less you can sell at a higher price than at a lower, or vice versa. The second shows how much it costs to produce different amounts of output. From total cost can be derived average cost per unit and marginal cost, or the added cost needed to produce a small added amount of output. These curves between them determine what price will yield maximum profits: that is, how far it pays to raise your price above marginal cost before the reduction in volume of sales outweighs the increase in net gain per unit.

This is an unreal simplification. Actually the curves behave quite differently in the short run and in the long run, and policy may be governed by short-run or long-run

[1] For academic reasons theorists nowadays classify any differentiation of product as an "element of monopoly." This is intellectually defensible, but the analysis of "monopolistic competition" based on it has so far, for various reasons, had implications for judgment and policy that were not wholly fortunate. Cf. below, pp. 77–81. It does not seem to fit well with the requirements of antitrust policy.

considerations. The slope of the demand curve is uncertain, especially in the long run; and in the long run the effect, for example, of reduced electrical rates is merged with the effect of campaigns to increase use of household appliances, which in turn is merged with the effect of the shortage and high cost of domestic help: acting jointly to change habits of housekeeping, and making it virtually impossible to isolate the long-run effect of the rates for current, taken by themselves.

To put it differently, what is sacrificed by a grasping price-policy is not just a given amount of sales next year, but indefinite possibilities of future growth, which might be turned into a shrinkage if "potential competition" were to materialize, as is always possible in the long run. And most business men, whether they have something approaching a monopoly position or not, recognize clearly that it is bad business to sacrifice future growth to an exorbitant rate of present profit, even if the curves on paper would permit it. Most of them probably recognize that a conspicuously exorbitant rate of profit is bad business in any case. It is bad public relations, and business needs good public relations, and knows it.

Furthermore, organized labor is acquiring a keen eye for exorbitant profits, so that what does not go to consumers in lower prices is likely (or a good deal of it) to find its way into increased wage-bills. And a wage-increase is harder to undo than a price-reduction, if changed conditions should necessitate it. This last consideration does not dominate business policy, but there are signs here and there that it is being taken into account.

The upshot is that a monopolist does not typically price for the utmost possible immediate profit that curves of demand and cost permit, but seeks expanding business at a profit that seems to him reasonable. It is not exactly safe to let him be the sole judge of reasonableness in his own

case; in fact, it is thoroughly unsound. He will be more than human if he does not rate his risks as deserving of a higher premium than others would approve, and he may lack vision and enterprise in promoting future growth. It is safe to assume that he will charge too much, even if, as a general thing, he does not consciously squeeze out the utmost profit the immediate market will afford. He may, of course, do that if it is the only way in which he can get a profit that satisfies his sense of reasonableness. But he can do plenty of harm if he uses only a third or a quarter of his monopoly power. The trouble with monopoly is not that it always leads to the kind of pricing which theory assumes, but rather that it can do so, and is virtually sure to distort pricing in that direction, leaving the monopolist too wide a range of arbitrary discretion.

Perhaps the chief error into which theory falls as a result of the profit-maximizing assumption is its conclusion that monopoly prices would be reduced in response to declining demand in a depression. This rests on the idea that prices had been previously pushed up to maximum-profit level.[2] But the more realistic picture is that of a concern which has been pricing for long-run growth and a "reasonable" profit and which finds itself facing what it hopes is a temporary weakening of demand. It then meets this on a short-run basis. Its original price, being considerably less than would yield maximum short-run profits, may still be less after demand has shrunk. So the monopoly may simply maintain it. This stickiness of prices seems to correspond better to actual behavior, and is reasonable on the theory here suggested.

Historically, monopoly in this country went through a

[2] Even on that basis the result depends on what happens to the elasticity of the demand curve as demand weakens. A purely horizontal shrinkage of the curve might lead to higher prices rather than lower, on regular theoretical assumptions, by increasing unit costs while elasticity of demand remained unchanged.

stage of lusty buccaneering when public relations and ideas of reasonable profit had little weight. But even then it is doubtful if the pure monopoly theory applied. This would require that prices be pushed up until they reach a point where physical volume of sales falls off by a much larger proportion than prices are raised. If physical volume of sales shrank in the same proportion as prices were raised, gross income from sales would be unchanged, while the reduction in output would occasion some reduction in total cost; hence profits would be increased by raising prices. This would continue to be true as prices were increased, until a point was reached at which sales shrank enough to reduce total sales-income by an amount equal to the reduction in total cost. That is, under this theory prices would be raised until they reached a point at which demand was strongly elastic. Instead of which it is common testimony among business men that the total demand for their product is relatively inelastic; and the probability is that few demands are as highly elastic as the theory would call for, at the levels where prices actually stand.[3]

Much more frequent have been arrangements far short of outright monopoly, entered into to protect business from the excesses of competition, actual or apprehended. Actual competition is capable, in some cases, of wiping out all profits and turning them into deficits, even for concerns of standard efficiency. It has no dependable automatic governor that causes it to stop at the point where

[3] This would require that an increase of price should reduce physical volume of sales in the same proportion by which it increases, not the price, but the *excess of price above marginal cost*. As an illustrative case, if the changes are very small, and if marginal cost is for simplicity assumed to be constant at $\frac{3}{4}$ of the initial price, this implies that demand has an elasticity of approximately 4: that is, a 1% increase in price would reduce physical sales approximately 4%. (Elasticity would be precisely 4 if the problem were reduced to one of infinitesimal changes on continuous curves.) This is a very high elasticity.

capital is earning, for example, a return equivalent to a fair rate of interest. This would be ideal competition; the actual process is sometimes less severe than this and sometimes more severe. And the motive back of many noncompetitive trade practices is probably conceived by business men themselves as a search for security against excesses of competition, rather than the pursuit of exorbitant profits.

This suggests a variety of possible types of behavior, and the likelihood of considerable historical evolution in practices. Monopolistic behavior is even less standardized than competitive, and has more chance to get into a rut.[4] A monopolist has a wider range within which he is free to follow his own discretion; also he is not under the compulsion to be always trying something new on penalty of being left behind by others who make successful innovations.

3. *What is competition?*

In the last lecture we encountered the fact that economics has denied itself a realistic concept of human nature. Now we encounter another curious gap. Economics has no concept of competition. To illustrate what is meant by this purposely extreme statement, ask any graduate student what competition is, and it is safe to predict: (1) that he will start defining competition of business units only, in selling only; and (2) that he will define, not competition in general, but something called "perfect" competition, which turns out to be an imaginary state, inherently impossible in real life; or "pure" competition, which turns out to be destructively severe, creating "sick industries." Ask him to define "monopoly," and he may include buy-

[4] It may be significant that it was an English economist, before the war, who said: "The best of all monopoly profits is a quiet life." J. R. Hicks: "The Theory of Monopoly," *Econometrica*, Jan., 1935, p. 1.

ers' monopoly (for which a new technical term has been coined) as well as sellers'. He may start by telling you that there is an element of monopoly in all trading, but he will probably not start with a definition of "perfect" monopoly, which turns out, like perfect competition, to be nonexistent, or substantially so, outside Soviet Russia. The upshot is that monopoly is the more comprehensive concept. The equipment of mental tools in current use among economists is not symmetrical, in its bearings on this problem, but leans toward construing business as limited monopoly, while reserving other concepts for dealing with agriculture and labor.

The possible fruits of this tendency were illustrated in a manuscript I saw not long ago in which there were two separate treatments of two kinds, or areas, of competition. In one, competition tended to bring price down to marginal cost of production; this was destructively severe and therefore unsound. In the other, competition was mitigated so that it allowed price to remain above marginal cost of production, and was therefore unsound. Marginal cost was too low a standard, but anything above it was too high! And these two judgments were kept in thought-tight compartments. The author seemed unaware that he was condemning competition in advance, whatever result it might produce, by setting an irrational standard to judge it by. He would have been correct if he had claimed that, when business gains a shelter from the rigors of the most extreme competition, there is no guarantee that it will stop at a reasonable point. Instead, his conceptual scheme denied that any reasonable point could exist.[5]

This is merely an extreme case of the bias inherent in

[5] Some economists hold a more rational form of this theory, which maintains that any price above marginal cost cuts off some production that would be worth undertaking; the conclusion being that economically correct pricing is possible only in a collectivist economy, or in one that subsidizes business losses out of taxes.

certain tendencies common in current economic analysis. There are, however, signs of a shift toward more objective thinking. It is becoming respectable to speak of monopoly in the fields of labor and agriculture, as well as in business, when either uses combined action to raise its price, backed by unified control of supply. But the problem remains of defining reasonable standards of competition, and distinguishing harmless degrees of protection that represent the requirements of reasonable security from those that represent aggressive monopolistic exploitation. The two shade into one another, though their extremes may be easily distinguishable.

The first thing that seems to be needed is to supply the missing conception of competition: one that covers different degrees and is not limited to impossible perfection or destructive rigor. The question of desirable degree is a natural second step. Competition is rivalry for economic goods or gain: rivalry that centers in offering the other party a bargain good enough to induce him to deal with you in the face of his free option of dealing with others who are freely offering him the same kind of inducement for the same kind of return. The terms have to be worth your while — that is a bottom limit — and the top limit is set by the other party's freedom to go elsewhere if anyone else offers terms more attractive or more advantageous to him than yours are.

The rivalry may be in buying or selling or working for advancement. It merges into "substitution" where inducements of different kind or quality are offered. But the essential thing is that your gains are limited by the fact that you will lose business to your rivals if you let your offer become less attractive than theirs. Wherever this will happen, there is some competitive force at work. And the force and effectiveness of competition hinges, among other things, on how large and how speedy this transfer of bus-

ness is, in response to a small inducement. The competitive check is not very effective unless, if your offerings get substantially inferior to your rivals', you will fairly soon lose all or most of your business.

The rivalry has certain general characteristics. (1) Business competitors are under more pressure than monopolists to try to make the largest possible net return, because if they do not, they may not stay in business long. But there are high-cost and low-cost producers, and the low-cost concerns have some margin of discretion in this matter. The efficient production on which their superiority rests is precious, and they will do nothing to endanger it; but in other matters they are free to try experiments with long-run ideas of policy. They do not have to squeeze out the last dollar this year's market will afford. In some cases, where their superiority depends on having gained a lead in the race for improvement in which all are engaged, a ten per cent advantage in cost might be reckoned as equivalent to three or four years' normal progress in productivity, so that it might be lost if the low-cost concern should cease to progress for about that length of time; in other cases, where the superiority is due to location or some other enduring cause, this way of representing it might not be appropriate.

On the other hand, there is nearly always a quota of border-line producers who must better their current record or go out of business, and in some industries there is a fringe who can work only when demand is strong. They must make the most of every short-run possibility. The pressure on these concerns may affect their policies in selling, buying materials, or hiring labor. Competition of employers for labor sustains wages; but where a concern is under strong competitive pressure in the sale of its product, but is less competitive as a hirer of labor — a frequent situation — its competition may force it to squeeze wages

down. This is one of the problems that union policy has to meet.

(2) Under competition no one seller can control supply. If he withholds part of his own supply, incidentally to holding his price, others are free to fill the gap.

(3) It is often said that under competition there can be no bargaining, but under the definition here adopted, bargaining is merely limited in scope.

(4) Finally, one neglected feature of competition is the fact that, like most human matters, it is always evolving. Economists are typically in error in this respect through their predisposition to find fixed and unchanging economic laws. On the whole, it seems truer to say that the character and force of competitive tactics tend continually to change, as people learn what to expect of their rivals and try new ways of adjusting themselves to the rivalry. Therefore the character of competition seems to depend partly on how long a given type of competitive contacts has been in operation. Competition may tend to settle down to a sort of stalemate unless fresh areas and types of competitive contact are continually being opened up; for example, by improved transportation bringing new producers into a market, or by the starting of new enterprises or the introduction of new processes or new products. Competition needs to be dynamic; if it gets to obeying fixed and rigid laws, it is already half dead. The fixed formulations of economic theory are statements of what might be, but seldom accurate descriptions of what is. The requirements of neat theoretical formulations and those of a healthy living organism are not the same.

4. *Competition and security in agriculture.*

Agriculture illustrates one paradoxical feature of competition, since here, aside from governmental action, con-

petition is at its strongest, yet farmers are not consciously competing against one another; they simply produce, and sell their product for what it will bring. Agriculture is in the position of furnishing a disproportionately large part of our growth in population, while it affords dwindling opportunities for employment. Productivity has increased at a rate not very different from that of the rest of the economy, while demand for its products has not kept pace. As a result agriculture, which used to employ a majority of our people, now employs only about fifteen per cent of our labor force. We have become a nation of urban employees rather than one of small independent producers in trade and industry and on one-family farms.

But agiculture works with a large fixed and specialized investment, both in buildings and equipment and in human training and capacity, which cannot get out easily into something else. The output of particular crops fluctuates with the seasons, but output as a whole does not fluctuate materially with the fluctuations of demand that come with general prosperity and depression. And since demand is inelastic, farm prices and incomes fluctuate widely, while the farmer must make most of his season's outlay before he knows what the price is to be.

For all these reasons competition has tended to push average net returns to farmers, after deducting interest on investment, down below the wages earned in comparable work elsewhere, and to impoverish them seriously in bad years. Meanwhile, tariffs, and imperfect competition in industry and trade, have sustained the prices of things farmers buy, and left farmers at a relative disadvantage on the average of good and bad years.

Even before the New Deal the Federal government had undertaken aid to agriculture, making price-supporting loans. But it seemed that this only tended to aggravate the underlying condition of production in excess of demand at

profitable prices. The New Deal took the next step, of inducing farmers to join in acreage-restriction plans. But restriction of acreage did not do so much as was expected to reduce output, as crops per acre rose and surpluses piled up in government's hands. An objective for price-policy was set up in the shape of "parity": the relation of prices received by farmers to prices paid by them which prevailed in 1909–14, with modifications in favor of particular products; but the objective was never reached until the war for the first time made it possible. The impact of fluctuations was to be smoothed by the principle, known to Confucius and to Joseph in Egypt, of the "ever normal granary."

But supported prices hastened the displacement of our agricultural products from world markets; and this may become more marked after the end of the period of aid to Europe, if our prices remain inflated, while foreign production recovers and foreign countries become self-sustaining, especially if they succeed in restoring a fair amount of trade among themselves. The indicated next step for us is to try to maintain as much as possible of the high demand for farm products that stems from high employment in the rest of the economy. This should be accompanied by reduced tariffs, which might somewhat reduce the farmer's relative disadvantage in prices. Fluctuations in prices might be mitigated for particular products, on the "ever normal granary" principle, but our experience points to leaving long-run average prices to find the level that will move supplies off the markets.[8] Our commitment to support farm prices for two years after the war might be met by outright payments rather than by sustaining prices at levels at which unsold supplies would accu-

[8] Cf. Research Committee of Committee for Economic Development, "Agriculture in an Expanding Economy," pp. 20–33; T. W. Schultz: *Agriculture in an Unstable Economy*, pp. 257–61, 269–70.

mulate; subsequent special hardships might be met on the same principle. In one way or another we shall continue to attempt to put a security floor under competition in farming, to mitigate its too extreme effects.

This still leaves the individual farmer in a position in which his income depends on his efforts and efficiency. He is still competitive in that respect. But he is organized, both in local units for co-operation with the government program and in his own nation-wide farm organization. And these do two things. They meet the farmer's basic need to be a member of a group that looks out for his interest and not a completely self-dependent individual. And they do it, among other things, by actively promoting his interests against the other interests that make up the community, by the methods of monopolistic restriction and political pressure for economic subsidies. It is the dilemma of any market economy that these two things go together: the organizations that furnish security can also exploit; and they have come to power in a society under whose orthodox and accepted ideology power of exploitation is expected to be used. A free society depends on our finding some workable answer to this dilemma.

5. *Business competition: general character.*

Competition in industry and trade has, as already suggested, some of the same tendencies to go to ruinous lengths that we have seen in agriculture, for some of the same reasons. These tendencies may be most likely to appear when new producers are trying to break into a fresh area or type of business, or in a severe depression. But such a situation seldom lasts long without developing natural mitigating factors, or possibly deliberate practices which moderate the force of competitive pressures and which come easier to business than to agriculture. Business often needs some

mitigation, but the protections it secures extend into practices that give it a degree of monopolistic power. Antitrust policy is perforce extending into the attempt to control these practices and is finding it a delicate and complicated task, for which customary legal concepts are not too well adapted. But that is too long a story to go into here.

The chief experiment in governmentally sanctioned mitigation of competition in this country was made under the NRA. Its codes were permitted to impose limits on price-cutting, exempt from the antitrust laws, but with the proviso that they should not establish "monopoly." Thus a border zone between security and monopoly was implied, but not defined. In general, where the code provisions were sufficiently safeguarded to avoid dangers of a monopolistic sort, they did not do the trade or industry very much good, and in some cases seem even to have worked in the opposite direction to that intended, causing prices to press downward toward the floor, where otherwise they might have remained above it. This kind of policy has survived in the fair-trade laws of numerous states.

Another instance is the minimum prices that were in force for bituminous coal for a brief period, before the war raised prices above the minima. This practice may be revived. Another illustration is the control of milk prices and marketing; others are found in small service trades — for example, the way in which charges in barber-shops are standardized.[7] In manufacturing, conditions range through many degrees of competition and near monopoly. Aluminum affords an outstanding example of a strongly entrenched monopolistic position now modified by the entry of new producers, by the development of magnesium, and by the rivalry of alloy steels, wood, and plastics, in uses to

[7] Since writing the above, I note a study of "Guild Pricing in the Service Trades," by W. F. Brown and Ralph Cassady, Jr., *Quarterly Journal of Economics*, February 1947, pp. 311–38.

which enlarged aluminum output would naturally extend. It seems likely that the rivalry of different materials may be more effective, on the whole, than the competition of three producers of aluminum.

Competition in price is sometimes contrasted with competition in quality. The distinction is real, but it would probably be more exact to speak of competition in price where quality is standardized, and competition of sellers offering different qualities, with price as a co-ordinate inducement. "Competition in quality" is often spoken of as if any difference in quality were a form of monopoly; and it is true that this kind of competition is not "perfect" as theorists define perfection — but then, no competition is. It is real and powerful, and includes on the whole the healthiest forms of competition. If every seller is free to choose whether he will offer a quality close to his rivals' or markedly different, if the buyer is equally free to choose between them, and if this rivalry forces every seller to offer something that will attract free buyers, the rivalry is surely one of the most desirable sorts, and the mere difference in quality cannot in itself lead to monopoly profits.

It may, of course, get into a rut where differences in quality become stabilized, and price-differentials equally stabilized, so that a producer knows that any change in his price will be instantly followed by his rivals, just as may happen where quality is identical. It works best where there is a constant search for innovations that are substantial enough to lead to an alteration in the previous price-differentials.

One kind of innovation that seems particularly likely to be held back is one that greatly increases the durability of a product, all at once. This naturally tends to reduce total demand for the product; and where all the producers are virtually sure to adopt it if one takes the lead, even the leader may soon find his volume of business reduced in-

stead of increased as a result. This is especially likely to happen if the number of producers is small. There might logically be cases in which an improvement of this sort would be more likely to be introduced if one concern held a patent on it than if all could freely copy it and promptly wipe out the first user's gains. This is perhaps the chief defect of quality-competition in practice; and it may be a cloud with a silver lining, as delaying a type of improvement that is especially likely to lead to "technological unemployment."

From this standpoint, the growing fertility of industrial chemistry in turning out an increasing variety of synthetic materials, and the resulting flow of different products, are among the healthiest features of the situation, starting fresh competitive contacts that may serve as an antidote to the tendency of old ones to settle into a rut. Such innovations seem to be coming along so plentifully that we need not be afraid that technical progress will come to a standstill, even if shoemakers fail to adopt the most durable method of making waterproof heels. One of the costs of this progress is the burden of selection it imposes on the customer and the need for technical guidance to aid him in this increasingly difficult task.

Some innovations are patentable, and patents involve a host of problems, to which I cannot do justice here. A patented product is a monopoly, while a patented process, if used and useful, creates a protected differential between competitors in cost, or quality of product, or both. Patents are, of course, used to suppress improvements as well as to protect their introduction; and compulsory licensing of unused patents seems defensible in principle, though raising many problems in application. Other problems are connected with protection against infringement, and extension of monopoly beyond the intended scope of the patent grant.

In this field, as in other matters concerned with competi-

tion, to aim at perfection is to invite trouble. It is necessary to have general rules governing such things as terms of grants and conditions of licensing, which cannot in the nature of the case be perfectly adaptable to all the different situations to which they will have to be applied. Perfect adaptability would seem to require leaving such things to be determined on the merits of each case; and the possible gains do not seem important enough to justify such an increase in administrative discretion.

In conclusion, business competition exhibits almost infinite variety. Competitive effectiveness is an imperfect test of social serviceability, but it is a better test than a good many others that might be substituted and it can be improved by ruling out particular abuses. Competition does not eliminate superior rewards, but they have to be won by superior performance (admitting the imperfection of the tests of superiority) in a race, entry to which is not closed (admitting that trades differ in the ease with which they can be entered). Here the crucial question is whether the prospect of entering a trade, as seen by those who can command the necessary resources, looks more attractive than the alternatives that are open to these same people. They range from a well-informed and highly paid corporation executive to an ill-informed man who would be out of a job unless he made one for himself by starting a small one-man enterprise.[8] It is these conditions that constitute the definition of a normal competitive return, in so far as such a thing can be said to exist.

6. *Realism versus formal theory of imperfect competition.*

The picture we have been looking at differs from current formal theory in a number of ways, chiefly in that the outcome is not strictly determinate, but leaves a margin of

[8] Cf. A. R. Oxenfeldt: *New Firms and Free Enterprise* (1943).

discretion to the management of an efficient or a "representative" concern.[8] Therefore it makes a great deal of difference with what kind of ideas of sound policy this discretion is exercised, and what kind of considerations get the benefit of the doubt, where doubt exists. In its own interest, business needs to give the benefit of the doubt to policies consistent with the health of the system as a whole, since the system as a whole seems to be running on a very doubtful margin of safety.

A few more specific differences might be briefly mentioned. Where a standardized product is sold by a few large competitors, formal theory generally represents the result as identical with monopoly, in respect of the relation of price to cost. A more realistic view reveals no force other than agreement that might raise price up to the monopoly level, and indicates rather a sticky price at an indeterminate level, which may be interrupted by active price-competition if there is price-cutting of the irregular, "chiseling" variety, as distinct from reductions of an openly quoted price.

In the case of quality-differentiated products, formal theory represents producers as always limiting output short of the amount they can produce at lowest cost. The proof is diagrammatic; and we have already seen reason for distrusting these diagrams. Actually, it seems that this might or might not happen. Plants will normally be working short of capacity most of the time, simply because they are built to take care of fluctuations in demand, which is a very different thing. If an efficient concern (which would be earning something above bare cost) could sell more than the output of its existing plant under the price-policy it has been following, it is hardly thinkable that it would refuse

[8] For the formal theory referred to, see E. H. Chamberlin: *The Theory of Monopolistic Competition;* Joan Robinson: *Economics of Imperfect Competition;* also George J. Stigler: *The Theory of Price.*

and would raise its price instead, merely because the larger plant would afford no reductions in cost. This would violate the cardinal principle of planning and pricing for future growth.[10]

7. *What kind of security does business need?*

The general competitive theory goes on the basis that business should be exposed to the full insecurity that competition implies. Failure in business is not like failure to hold a job, and does not normally mean destitution. One has been a candidate for a position of control over a sector of the community's productive processes, and one has simply lost the election. This is necessary if the unfit are to be eliminated and progress promoted. Normally one has other ways of making a living to fall back on. Too many failures are not healthful for the rest of society; and we have seen that there is a case for some mitigation of the extremest rigors of competitive struggle. But the shelters normally available to business are, by and large, more than sufficient

[10] I have dealt briefly with some of these questions in "Toward a Concept of Workable Competition," *American Economic Review*, 1940, pp. 241–56; reprinted in *Readings in the Social Control of Industry*, pp 152–75 I also have a quarrel with what appears to be the accepted treatment of the relation between long run and short run curves of cost with varying output By way of illustrating the range of discretion that imperfect competition involves, I encountered, in an unpublished manuscript by Mr Emanuel Hacker, of Brooklyn College an account of the proprietor of a small business who deliberately followed a price policy so high as to prevent his business from growing, because then the work of management would become more exacting and would leave him less leisure A larger business at the cost of less leisure did not attract him If this were a monopoly, such a policy might be serious, in the unlikely case that the product of such a small business was an important product In a competitive industry such a concern is hardly likely to set the pace Cf T de Scitovsky 'A Note on Profit Maximization and its Implications" *Review of Economic Studies*, winter 1943, pp 57–60, also M W Reder "A Reconsideration of the Marginal Productivity Theory," *Journal of Political Economy*, Oct 1947, pp 450–8

to give it an undue advantage over agriculture: an advantage that needs to be reduced rather than increased.

The most basic security it needs is protection against predatory tactics. Beyond legal protections, this calls for a strong sense of business morals, embodying the spirit of the competitive system. Next to this we need a tax system that does not load the dice against assumption of business risks. But the best security comes from a strong and fairly steady demand for products. This may reduce the need for protections in the realm of trade practices. Security would not need to take forms involving monopolistic power. If the welfare of the economy requires a reduced over-all rate of profit — as it very well may — the soundest way to combine this with reasonable security would be to reduce the spread between high-cost and low-cost producers, by improving the efficiency of the high-cost producers, and possibly in other ways involving altered allocation of the economy's overhead, in order that the higher-cost producers might survive at prices that would not be so high as to yield the low-cost producers exorbitant profits.

But one of the most vital forms of security is in the realm of the imponderables. It is not so much a question of what happened to business incomes in 1946 — they came through very well. But they came through with much help from the temporary factor of tax-reductions, and under conditions which gave business the feeling that organized labor and government, between them, have the power, and very likely the disposition, to do things to business the full nature of which is not revealed and against which it may not be able to protect itself. Business doesn't know what may be coming next. This is serious, and not to be too heavily discounted because business has been crying wolf at every fresh encroachment and then has adjusted itself and carried on. The wolf may be real some time. Business's chief tangible safeguard is the formal freedom to

raise prices if money costs increase; but if demand is weak, or if a price-increase merely leads to an inflationary wage-price spiral, it may not be a very dependable recourse.

But labor will keep great power, even though some privileges may be trimmed; and government cannot stop regulating business, nor promise to undertake no fresh regulations. Business will have to go on learning to find its way through a changing social landscape for some time to come. As I have said elsewhere: "The best that can be hoped for is a conviction on all sides that necessary changes will be made in a spirit of reasonable consideration for the genuine needs of the interests that are affected. This feeling of underlying confidence in the reasonable character of other parties' attitudes is probably the best definition of the kind of 'security' which our system needs for the generation that is ahead." [11]

8. *"Labor is not a commodity": labor's rise to power.*

During the dark period of the industrial revolution in England, labor's only security, if it could be called such, lay in a system of poor-laws that was "reformed" in 1834 to a ruthless severity. Then, and for some time afterward, labor was regarded as a commodity, the price of which was governed, like any other, by supply and demand, under conditions of complete and unmitigated competition. In this country the English common law of conspiracy was applied to unions for some time after Parliament, in 1824, repealed the laws outlawing unions. Now labor has back of it a system of minimum wages that would have seemed munificent forty years ago, and an elaborate system of "social security," carrying benefits as a matter of right. And its drive to organize has in the last fourteen years been actively

[11] "Some Current Cleavages among Economists," *American Economic Review Supplement*, May 1947, pp. 1, 3–4.

promoted by government until, with fifteen million members, said to dominate conditions affecting twenty-five millions, it is the largest and strongest organized group in the country.

It operates on wages by methods and with powers that are clearly monopolistic, making it much the largest and strongest repository of private monopoly power in the country, and the only one frankly adopting the objective of "more, without limit." It is the only one that has commanded public support for such a policy. Business monopoly must run the gauntlet of the antitrust laws, prices of recognized "natural monopolies" are publicly regulated, limitation of farm acreage is engineered by government in the light of standards of "parity" passed by Congress; only in the case of organized labor has the government sanctioned the use of monopolistic powers and practices by private organizations in the service of their private interests, without limit on either the extent of the combination or the amount of its economic exactions. And only within the last year have there been signs that both the public and the unions recognized that these powers are affected with a public interest, to an extent that properly calls for some limitation on both their exercise and the objectives they are used to support. The objectives include both wages and conditions of employment, and perhaps the most pregnant are those which take the shape of increases in power, which may be used to enforce future demands, and so have a cumulative effect. Discounting these gains, on the ground that some of them may be temporary, this is still a real revolution in the balance of economic power. It has culminated so swiftly that workers, liberals, and even some employers seem unaware that labor is no longer the under dog. How has this great change come about?

In the mid-nineteenth century John Stuart Mill condemned the laws against unions, but on grounds that seem

strange today.[12] He said that if unions could raise wages as a whole, that would be highly desirable; but they could not. In the first place, they could not organize effectively, and in the second place, if wages in one trade were raised, it would be at the expense of unemployment, since it would do nothing to increase the total funds available to pay wages. This would force workers to recognize the futility of the wage-increase. In the 1870's, after the abandonment of the theory of a fixed wages-fund, which Mill had held, economists began to recognize that the employer had certain "bargaining advantages" over the unorganized workers.[13] Many employers had some degree of buyers' monopoly in their dealings in a local labor market. And if workers bargained individually, a small margin of unemployed, such as is often or usually present, could be used as a lever to depress wages below the real value of the worker's product. This could be avoided if the workers bargained as a unit; and if they had no control of access to the trade, their wages would still be governed by normal operation of supply and demand.

Along with this went a theory of strikes, in which the employers were free to fill the workers' places if they could find a sufficient supply in the market, able and willing to work for the terms the strikers had rejected. It would merely take a larger excess supply than before to defeat the strikers' demands. This theory probably never fitted the facts of the conduct of strikes by either side. Workers resented having their places taken, and showed their resentment in practical ways. Employers hired strike-breakers at a premium, which was soon justified by the extra-hazardous character of the strike-breaker's job. The strike was taking on some characteristics of warfare. Another generation or

[12] *Principles of Political Economy*, Book V, Chapter x, Sec. 5.

[13] Cf. J. B. Clark: *The Philosophy of Wealth*, Chapter viii, especially pp. 133–6.

more of struggle, and labor had effectively forced recognition of the striker's tenure in his job, so that few employers made any attempt to operate during a strike, or refused to rehire the majority of the workers after it was settled.

Then came power to limit the supply of qualified and eligible workers, and this took various forms. It was later supplemented by gaining power to affect the process of hiring and discharge. Protection against arbitrary discharge is in itself one of the most crucial elements in labor's security; but for our present purpose the more important thing was the building up of seniority rights, which became effective in time of layoffs. They meant that, if many of the men laid off would be willing to accept a reduction in pay in order to hold their jobs, the employer was debarred from hiring them, because others had seniority-preference. It became possible to maintain wage-rates in the face of a substantial supply of unemployed workers. Wages were less and less subject to the "law of supply and demand."

Before this culminated, labor had gained a basic legal immunity as against the antitrust laws, in sections 6 and 20 of the Clayton Act of 1914. The immunity is legally ambiguous and incomplete, but *de facto* effective: witness the fate of Thurman Arnold's short-lived attempt to breach it by actions directed against practices limiting productivity. Supporting this immunity is the declaration that "the labor of a human being is not a commodity or article of commerce": an expression of the philosophy that labor should not be at the mercy of unmitigated market forces, put in the form of a denial of the classical attitude. The point is a good one, but it has yet to be consistently applied. Under cover of it, labor has come to be treated as a commodity subject to private monopoly for the benefit of the seller. And today the principle that labor is not a commodity might logically be invoked against the monopolistic use now made of this principle.

Equally important has been the growth of numbers, and the growth of union funds, with which longer strikes can be successfully financed. So the more any given sector of labor has already gained, the more does its bargaining-power increase, which it can use to enforce further gains "To him that hath shall be given." And in so far as strikers can draw on social-security funds, these count among the means of financing strikes. In 1933, under the National Industrial Recovery Act, workers were formally granted the right to bargain collectively by representatives of their own choosing, later implemented by the Wagner Act and the work of the National Labor Relations Board. Around this a body of jurisprudence is growing up.

In the days of Samuel Gompers the objective of "more, without limit," became explicit, also the tactic of making gains in good times and holding them through depressions. This was applied to wages, and Gompers urged workers to take their losses, during depression, in the form of unemployment rather than wage-cuts. This has been replaced by the theory now uppermost, that the way to stimulate employment is to raise wages, not lower them. Thus the impulse to demand higher wages is almost completely rationalized as consistent with maximum employment. Almost, but not quite, for there is vague recognition that this is true only so long as industry is making large enough profits to enable it to pay the increased wages out of them, without drying up the source of employment. This limitation is probably more clearly recognized in the private counsels of labor than in their public pronouncements.

High wages are good for business; probably higher wages than business as a whole would pay without some pressure of the sort unions exert. Therefore unions have almost certainly been good for business. But this ignores many ways in which wage-policy may stand in the way of full employment.

Another aspect of labor's self-protection has been limitation of output. This is partly a protection for slow workers against the competition of faster ones, partly a protection against the strain of undue speeding of work by employers, and partly a protection against working oneself out of a job. Protection against the strain of speeded work is legitimate, provided the workers realize that they pay a price in long-run limitation of real wages, and make the choice deliberately. This issue is much obscured; but recent statements by the American Federation of Labor indicate that it realizes that high real wages for labor as a whole are dependent on productivity, and that it is ready to promote productivity in the interest of high real wages.

But this is contingent on not sacrificing jobs. So long as demand for labor limits employment short of a desirable level, condemnation of restriction of output rests on a weak basis. Unless some better protection for jobs is found, this will remain a stubborn problem.

9. *Labor's security: present situation and prospects.*

To sum up, labor's security rests partly with government, partly with unions, and partly with recognition on the part of employers that this is an essential product of industry. Government protects a minimum income, and is increasingly looked to to protect the volume of employment itself, though it has not yet shown that it knows really acceptable ways of doing this. The union satisfies, first and foremost, the imponderable need to be a member of a group, closer and more like-minded than the vastly impersonal state, and one that can protect the vitally important need for personal status on the job. This may be even more important than its effects on wages. In fact, the workers might have got a majority of their gains in real wages without the help of unions; but they could not have got the imponderable

gains, such as safeguards against arbitrary discipline or discharge. In these vital matters the union is, and will remain, the worker's alternative to serfdom. But the same organ that does this is also a monopolistic pressure-group, with an attitude of conscious conflict with other groups: There seems to be no easily defined point where defense of security ends and aggressive exploitation begins; but few would doubt that the line has been crossed at numerous times and places.

Perhaps the chief limitation organized labor now faces is the fact that its most important security — that of employment — cannot be ensured, and may be impaired, by its traditional methods of protecting other securities. Otherwise it has power enough to get very nearly what it may seriously decide it wants. It probably has power to vote in a socialistic government if it were to want that unanimously. It could almost certainly bring it about indirectly, by making it impossible for private enterprise to do its job. Even a minority, by sabotaging reasonable adjustments, might be able to bring that about. It has power enough to make compelling political demands for high employment, while putting economic obstacles in the way of attaining it. It has power to becloud these issues and obstruct a rational settlement.

Or it has power to face these issues with integrity and deal with them in a way that recognizes the necessities of the other interested groups. It can well afford to do this, since the shift in the balance of power has left it in such a strong position that it should be able to make excellent terms — better in the long run than it would probably get from a socialist government, or good enough so that a preference for private enterprise would not be a very expensive preference to indulge. Labor can do this if both sides resist the temptation to let resentments over past grievances stand in the way of rational adjustments for the future. But the price would be a socially responsible exer-

cise of the great powers labor now possesses; and possibly acceptance of some particular curtailments where these powers have grown to the point of constituting a threat to the essential security of some other group or of the rest of the community. Labor's future security is very largely in its own hands.

IV

Revolution in Economics: after Keynes What?

1. *What Lord Keynes did.*

It is not too much to say that the course of economic thinking has been revolutionized in less than two decades by the work of a group of pioneering students, somewhat unfairly overshadowed by their most brilliant member, the late Lord Keynes. Perhaps thirty years from now history will have given a more mature verdict on this revolution than is possible today; and in a hundred and thirty years it may have a different one. History seems to be like that. And while history is making up its ponderously changeable mind, the best hints it can give us may come from a comparison with Keynes's great antithesis, Ricardo.

Indeed, the similarities in the work of the two men are surprising: in their methods, their strong points, and their defects. Each formulated brilliant deductive theories, growing out of contemporary events, conditions, and issues, as only the greatest deductive structures do. Both structures were left incomplete, with shortcomings of organization and terminology; and both men would have done some revising had they lived, either in the text or by separate commentary. And each left a school of disciples, many of them more orthodox than the master, lending the support of their doctrines to a one-sided emphasis in policy, which in Ricardo's case has been only gradually worn away by a century of erosion. We cannot afford to take as long to

redress a fresh one-sided emphasis, nor can we afford to do it by simply turning Keynes upside-down, as Keynes did to Ricardo. We need a balanced synthesis of Keynesian and other elements, and we need it urgently, if policies embodying the new ideas are to have the best kind of theoretical underpinning.

The unifying feature of the work of this new group is a fruitful attack on the problem of the flow of income and spending. This has been a bafflingly complex matter, since the days of Quesnay's *Tableau économique,* which only a few persons were supposed to have understood; and it had been neglected by the prevailing orthodoxy. In the recent fresh attack there are two outstanding approaches, one emphasizing the process of adjustment to change; the other, conditions of equilibrium in which adjustment would be complete. D. H. Robertson, exemplifying the first method, chops time up into arbitrary or symbolic periods, through which successive adjustments are traced. Keynes, exemplifying the second method, defines equilibrium by simultaneous equations and "propensities" or functional relations, which are, at least provisionally, treated as timeless. Like most divergent approaches, these should come together if each is carried far enough. They appear, in fact, to be complementary, and it is with this idea in mind that I shall follow Keynes's approach as representative.

In understanding what Keynes did, it seems that the first and most important step is to distinguish the problems he opened up from the particular solutions he suggested. These solutions might all be altered, or discarded and replaced, and his work would still be revolutionary in the opening up of problems and the admission of the possibility of *some* solution different from the one that had previously been accepted and had foreclosed fresh inquiry. He broke a taboo of more than a century's standing and lifted the tabooed area of inquiry out of the "intellec-

tual underworld" to a place commanding the best efforts of the best minds in the field.

He established the hypothesis that production can be limited by a deficiency of total demand — something the established dogma had denied — and that depression and underemployment may be due to something other than merely producing the wrong things at the wrong prices or the wrong wage-rates, or both. And he made respectable the hypothesis that chronic underemployment can exist as a result of market forces and not merely as an aberration that market forces are always automatically and effectively acting to eliminate. The result was to shift the focus of theoretical economic inquiry from prices and the allocation of resources between different products to the question of the total flow of spending, production, and employment.

In this he succeeded where previous heretics had failed, partly because he came at a time that was ripe to receive his ideas, partly because of prestige gained in other work, but largely because he produced an intellectually satisfying theoretical formula, explaining how a general deficiency of demand could come about and could operate. Like all theoretical formulas, it is an oversimplification; and this quality was probably necessary to gaining quick and wide acceptance. Once this was done, it could be elaborated and supplemented for experts and by experts. It could also be reduced to a tabloid for the layman, as could only be done with a formula that laid hold on factors of comprehensive importance. This combination of simplicity, flexibility, significance, and scope is an authentic attribute of genius.

Around the bare bones of the central formula Keynes wove a wealth of realistic comment, some of it serving to justify the assumptions underlying the formula, and some of it giving the reader passing glimpses of vistas that are left on one side, but offer a compelling invitation to explore further and more systematically. Keynes's work leads

beyond itself, until one is challenged to fit this line of inquiry together with the truth that remains in more conventional lines, perhaps remaking both in the process.

Finally, this body of thought offers hope of curing the disease of unemployment without revolution, by influencing the volume of spending, through things the state can do within the framework of the market mechanism. It looks toward achieving the security that goes with full opportunity for employment, not by replacing the free market mechanism, but by introducing governors that will make it work without stalling. Thus it is no wonder that it captured the imaginations of baffled liberals; or even of reluctant socialists who fear for freedom under applied Marxism, but feel that an economy of mass unemployment cannot survive.

2. *Say's law: a century-old taboo.*

In 1803 the French economist J. B. Say propounded the law that is usually abbreviated into the statement that there can be no general overproduction of goods, since supply of one thing constitutes demand for other things.[1] Desire for goods is unlimited, effective demand is limited by purchasing-power, but production furnishes its own purchasing-power. If some goods are produced in excess of the demand for them, this only means that the wrong things have been produced, or in the wrong amounts, or that they are wrongly priced. General depressions were, of course, a fact; but the cause lay in the allocation of resources, not in any general deficiency of demand. A corollary was that people could not save too much or consume too little, since

[1] J. B. Say: *Traité d'économie politique*, Book I, Chapter xv. Say was partly right in that increased production increases demand, but apparently wrong in assuming that the increased demand necessarily equals the increased output.

what is saved is spent as surely as what is consumed, only for different things. It goes into capital, which increases production.

This became the orthodox doctrine, fitting in with the classical view of exchange as a form of barter, in which money serves as an intermediary without altering the essential nature of the transaction. Orthodoxy on this point became one of the prime tests of a competent economist. A long line of heretics failed to dislodge it; most of them merely forfeited the right to be taken seriously as economic thinkers.[2] The rise of such heresy into respectability probably began with the Swedish economist Wicksell.[3] But the real break in the intellectual dam came with the great depression of the thirties, the way having been prepared, in Europe, by the stubborn difficulties that followed the first World War. These troubles bred skepticism of the doctrine of automatic recovery, and furnished soil hospitable to ideas of chronic depression.

Meanwhile economic theory had, since 1870, been going through a development that tended to separate it from the study of conditions such as depressions. The classical method had been challenged by the historical school, and its response had been to withdraw into a separate compartment, leaving other compartments free to include factual and historical material, while pure theory centered on the laws of value and distribution, conceived as tending to a state of equilibrium, which implied a constant tendency toward full employment. In so far as this theory responded

[2] Keynes pays his respects to them in his *General Theory*, Chapter xxiii, his honor roll including Mandeville, Malthus, Gesell, and John A. Hobson. Other names (some of which Keynes mentions) include the Earl of Lauderdale (1804), Rodbertus (1850) and socialist writers following him, Uriel Crocker (1884), John M. Robertson (1892), N. Johannsen (1908), C. H. Douglas (1920), H. Abbatti (1924), P. W. Martin (1924) and Foster and Catchings (chiefly 1925–8).

[3] Wicksell traced price-inflation and deflation to discrepancies between saving and investment-demand for funds.

to the conditions of the time, it was suited to an optimistically expanding period of industrialism, and its new analysis of value, in terms of marginal utility, afforded an antidote to the misuse Marx had made of Ricardo's labor theory of value. But in the main it went on of its own intellectual momentum, refining its doctrines, while its problems remained much as Ricardo had left them in 1817.

New conditions were dealt with in other compartments than the one labeled "theory." These same economists departed from classical *laissez faire* to favor an increasing amount of piecemeal regulation of particular abuses, but these interventions also belonged in the other compartments, with which the compartment labeled "theory" was not very actively connected. This was, in general, the state of affairs when the Keynesian bomb exploded, with the publication, in 1936, of his *General Theory of Employment, Interest and Money*, which became the central gospel of Keynesian economics. From then on, money, unemployment, and depression were an integral part of economic theory.

3. *The Keynesian formula.*

Perhaps the most subtle effect of Keynes's theoretical departure was a shift in the idea of social income, though this is strangely difficult to define with precision from the pages of the *General Theory*. Social income had been conceived as the creation of goods and services, and this may still be the basic meaning; but the dynamic factor, determining the size of future income, is the sale of the goods and services that have been created for the purpose.[4] This

[4] Two sample instances might be examined. (1) Government distributes an outright subsidy or a social-security payment. This is individual money income, but dies unless spent, and becomes social real income only if the spending leads to an increase in production and sale of goods. (2) An industry pays wages for the production of goods not yet sold. The real

dynamic factor becomes an affair of double-entry bookkeeping, since every sale is also a purchase. In this aspect income and spending become two sides of the same fact; and the active factor is the spending. Everyone tries to get an income, but no one, by himself alone, is in a position to *decide* to have one. That requires someone else's disbursement. If he has income or assets or credit, he is in a position to decide to spend or not; and whatever he spends becomes someone else's income.

From this central identity is derived the identity between total savings and total capital outlays, or "investment" in the Keynesian sense, which does not include mere buying of paper securities or of land, or accumulation of money; only outlay for current products used in business. And once more it is the outlay — the spending — that decides what the total is to be. People and businesses, between them, may set out to save a given amount, but the sum of their separate attempts is not in a position to determine the total amount of savings that will actually be made. That is determined, as before, by the amount of spending: that is, by capital outlays. There will not be a discrepancy between saving and investment; there can only be discrepancies between attempted savings and realized savings, or between planned investment and realized investment for the economy as a whole.

Such discrepancies normally mean that total income has turned out larger or smaller than was expected when the plans were made; and they also normally mean that the plans will be revised; and that in turn will change the total amount of spending, and of income, as soon as the revised plans take effect. Equilibrium is reached only when the

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income in the case may be viewed as an increase in value of inventory, of which the worker receives the money equivalent. The worker's money income is not perpetuated unless spent; the industry's real income vanishes unless the goods are sold.

actual volume of saving is what the people would choose to make out of the income they actually get, and when actual investment is what businesses in the aggregate would choose to make, sales being what they are. The steps in the process of approaching this equilibrium, and the fact that this process takes time, are almost concealed in Keynes's treatment, preoccupied as it is with a mathematically "elegant" and timeless formulation of the conditions of equilibrium itself.[5] More serious, perhaps, is a slurring over of features of this process which may cause it to lead naturally to endless oscillation, never reaching any equilibrium, either at full employment or below it. Business cycles are parenthetical in Keynes's system.

As to how changes come about, one might take a simplified illustration, in which investment increases beyond what people have chosen to save.[6] This means unexpectedly large buying, the first effect of which is to draw down certain inventories. Thus the books are momentarily balanced by unintended disinvestment. But this is temporary; business puts in orders to replenish its inventories, and maybe more; and production and incomes rise. Much of the increase is spent, but not all; and if investment quickly returns to its previous level, the bulge in income will quickly subside.

But if the increased investment continues, the successive respendings of the income lead to a cumulative increase in income and production, larger than the original increase in investment that caused it. It tapers off and reaches a limit when people have chosen to increase their savings by the

[5] But see the *General Theory*, pp. 47–50, just before the general formula is introduced. Here Keynes comes close to D. H. Robertson's type of "period analysis." Also p. 124.

[6] A more formal analysis could run in terms of successive arbitrary "days," as in D. H. Robertson's *Banking Policy and the Price Level*, with workers spending today the income they earned yesterday. Thus Robertson is a complement to Keynes.

same amount by which investment has increased. If they choose to save one third of their increased income, a given expansion of investment will cause income to expand by three times this much before the limit is reached.[1] If investment then reverts to its original rate, the whole process is reversed and turns into a cumulative shrinkage. In fact, any original increase or decrease in spending, for consumption or investment, has cumulative effects while it lasts. These are spoken of as "multipliers," though they are less simple and precise than this term suggests.

One thing that is assumed in this theory is that investment can increase without waiting for savings to increase first. This might not be true in every economic system, but is a fair assumption in a system like ours, with large cash resources, used far short of capacity, and an elastic credit system, nearly always able to furnish funds with which to exploit any opportunities that look sound to the bankers. Another thing that is assumed is that an increase or decrease in money income means some increase or decrease in real income, real production, and employment, and is not all taken out in raising or lowering prices. This again cor-

[1] Cf. Keynes: *General Theory*, Chapter x. Keynes accords priority for the multiplier theory to R. F. Kahn: "The Relation of Home Investment to Unemployment," *Economic Journal*, June 1931, though Keynes seems to have had the idea in 1929; see pamphlet: *Can Lloyd-George Do It?* I have applied the theory in *Economics of Planning Public Works* (1935), Chapter ix, and given an abbreviated treatment in "An Appraisal of the Workability of Compensatory Devices," *American Economics Review Supplement*, March 1939; reprinted in *Readings in Business Cycle Theory*, pp. 291, 299–306. In the diagram on p. 300, the successive spendings that figure in Kahn's approach are represented above the base-line, while the aspect on which Keynes hinges his formulation — income increasing until increased savings equal increased investment — appears below the base-line, the only difference being that Keynes measures it in "wage-units" and does not divide the movement into formal periods. This illustrates that these two approaches involve complementary aspects of the same state of facts. Keynes was aware that it takes time to generate a "multiplier" (see *General Theory*, pp. 47–50, 124, cited above), though this is ignored, for example at pp. 45–17.

responds to the typical experience in our kind of economy, whenever it has a substantial margin of unused capacity.

Part of the increased spending goes to raise prices, and presumably an increasing part, as full capacity comes nearer. At some point the inflationary effect would become serious; and one of the requirements for a succesful economy is that it should be able to reach a satisfactorily high level of employment without generating really harmful inflationary pressure. I shall have more to say about this question later. The Keynesian theory tends to sidestep it by an unduly simple assumption that something called "true inflation" cannot begin until something called "full employment" has actually been reached.[8] But the problem seems too substantial to be disposed of by such a form of words.

The most serious conclusion drawn from this central formula is that an economic system cannot maintain "full employment," or, indeed, any given level of employment, unless, when it is at that level of employment, it will invest as much as its members will choose to save. If investment is always pushing against the limit set by saving, this principle makes no difficulty. In general, this country was in that condition during the nineteenth century, except for spasms of depression, which interrupted its rapid growth. But a very rich country which already has a huge supply of capital and is not growing so fast might, according to this theory, be in a position in which its opportunities for profitable investment would fail to keep up with the savings it would choose to make when it was making full use of its great productive powers. The indicated possibility is that an economy of great per capita productive power, or one that is growing slowly, may have a harder time to make full use of its powers than a poorer and less produc-

[8] See Keynes: *General Theory*, especially p. 303.

tive economy, or one that is growing faster, relative to the size it has reached.

In this way the Keynesian formula furnishes the basis for the theory of the troubles of a "mature economy." This does not prove that the United States is in a condition in which it is condemned chronically to fall short of its productive powers and to suffer long-term unemployment; but it raises the question. In the past this country would have needed perhaps half its capital growth to provide the former amount of capital equipment per worker for its growing working force, and the former standard of housing per capita for its growing population. So only half its growth in permanent assets went into increasing the equipment per worker of productive facilities and increasing the amount of housing per capita. If it goes on saving the same proportion of its increasing income, while the growth of population tapers off, it will need to find ways of putting an increasing proportion of its savings into increased equipment per worker and increased housing per capita. It may be able to do this or it may not; and a great deal depends on the answer.[9]

One conclusion that seems hard to question, and is widely accepted by thoughtful business men as well as economists, is that as a country gets richer, this brings inherent tendencies to greater instability. Its standard of living includes more luxuries and a smaller proportion of such necessities as food and essential clothing. And an increasing part of it consists of durable possessions. The English classical economists, who were not ignorant of the conditions of their time, habitually reasoned as if the consumption of workers consisted entirely of cereal foodstuffs such as wheat, rye, and barley. This would be obviously out of place today.

[9] Cf. Alvin H. Hansen: *Fiscal Policy and Business Cycles*, Chapter xvii.

But comforts and luxuries are easier to do without or postpone; and durables — either buying them for the first time or replacing existing ones — are especially subject to postponement. They are also bought with installment credit; and this means that there can be times when current purchases fall short and income is being used to reduce the installment debt on goods already bought. Much of our present boom rests on a concentration of long-deferred buying, starting with perishables and semi-durables and shifting to durables as these become available. But this is an inherently unstable element. In the long run we shall have to get on without this temporary stimulus.

4. Natural market equilibrators: interest and wages.

We are accustomed to the idea that when the supply of anything exceeds the demand for it, its price will go down, and this will bring supply and demand into equality. Is there any reason why this does not apply to an excess supply of labor or of savings? Should not reduced wages, or reduced interest rates, bring the excess supplies into use? In the case of interest, the conventional theory would be that lower rates of interest would probably reduce saving, and certainly increase the number of investments that could profitably be made. Here the Keynesian theory takes the position that savings depend mainly on income and only to a small extent on interest rates. What interest does is not mainly to induce more savings, but to induce savers to put their liquid funds at the disposal of others who will use them for investment. And there could come a point, well above zero, and possibly in the neighborhood of two per cent, at which this inducement would cease to be sufficient and more and more funds, having been saved, would be held idle.

If there are not enough opportunities for investment

that are attractive to business when interest rates are above this critical level, then the rate of interest loses its power to call liquid funds into active use. And the power of reduced interest rates to make investment attractive to business seems to be limited. There are many kinds of investment where rapid progress in methods is likely to render new equipment obsolete long before it is worn out. Here the total cost of investment is high and uncertain, and any practicable reduction of bare interest rates makes little impression on this total. On the other hand, there are large areas, including heavy construction and housing, where capital is long-lived and interest is a large part of total costs. The upshot is that low interest rates can do a good deal to stimulate investment in special fields, but not perhaps in the general field of manufacturing. They should not be expected to work miracles.

As to reduced wages, they can accomplish a good deal in a single industry, if other wages are not coming down at the same time. They can reduce costs and make possible a reduction of prices that can increase sales, if the general income in the economy is not being substantially reduced at the same time. But this does not apply to a general reduction. Wages do not ordinarily come down faster than prices; and if they do, this reduces the income available to buy goods as much as it reduces the cost of the goods. This affords some ground for the conclusion that wage-reductions could go on indefinitely without rescuing the economy from a depression. The fact is that wages resist reduction very strongly; and Keynes considered this justified, for the general reasons indicated. He judged that it represented better economics than that of orthodox economists who believed in wage-deflation as a cure. In any case, it is the way wages nowadays act.

5. *Limitations of the formula.*

Powerful as it is, this formula has limitations. Keynes was dominantly interested in establishing the possibility of chronic underemployment as a natural result of economic forces; and accordingly his formula is one of equilibrium, which can be reached either with full employment or with something less. This drives out of it any definite explanation of cyclical fluctuations. These are reduced to incidental implications, in the textual comment rather than in the formula itself. And it is vague, or conservative, as to the amount of their income, or of added income, which people choose to save, merely assuming that they do save some of it. Quantitative studies are adding definiteness to this concept.[10] The formula is vague also, as we have just seen, as to the movements of wages and prices with changes in income.

But perhaps the chief vagueness is as to what determines investment. The formula assumes that conditions outside it determine a schedule of different amounts that will be invested at different rates of interest. Actually, investment reacts to factors included in the formula, but in a complex way, of which time and recent change are of the essence. If spending and income increase or decrease, the whole schedule of investment expands or contracts for a time, until productive equipment has become adjusted to the new volume of demand, after which the schedule may revert to something like its former magnitude. In this way changes may tend toward endless oscillation rather than toward any level of equilibrium. Keynes hints at these mat-

[10] Cf. A. H. Hansen: *Fiscal Policy and Business Cycles*, pp. 225–60; also J. Marschak: "Family Budgets and the So-Called Multiplier," *Canadian Journal of Economics and Political Science*, August 1939, pp. 358–62; and "Personal and Collective Budget Functions," *Review of Economic Statistics*, November 1939, pp. 161–70.

ters in his incidental comments, but does not take them into his formula.

These limitations leave much for subsequent students to do. But they detract little, if at all, from the revolutionary impact of the main idea: namely, the possibility of limitation of production by demand, short of productive capacity.

6. *Implications as to policy.*

This has great effects on policy, introducing new ideas and changing the emphasis on older ones. Taxed money, or taxation of idle balances, has been considered. But the most prominent novel idea is that government can stimulate production by deficit spending. Balancing the budget as a cure for depressions can never again have the wholehearted support it once received. The problem of adequate total investment is added to the problem of stabilization; but the incentives to private investment, other than low interest rates, are left decidedly out of focus. To follow out this theme in practice must lead to the question whether the objective can be gained without a mixed or semi-socialistic economy, in which the government itself handles a great deal of industrial investment.

Policy toward private income also appears in a new light. Not only stabilization of incomes, but their distribution is looked at as means to putting income where a desired amount will be spent. The emphasis is on more equal distribution of income as a means to enlarge consumer spending, while the effect on incentives to private investment is once more left somewhat out of focus. As to wages, the emphasis is thrown on the aggregate amount rather than where it used to be, on the relative adjustments of wages, or of prices, between different industries. The net effect is

to support the thesis that the government can, and must, take charge of the aggregate governors of supply and demand and see that they work toward full and stable employment, instead of toward mass unemployment, as too often in the past.

7. *The effect: economics on two sides of the looking-glass.*

From one standpoint, Keynes merely rediscovered things practical men knew before Adam Smith; and developed implications that make most practical men distrust the whole structure. But for conventional economics the effect of the Keynesian propositions is startling. Its one world seems to be split into two realms of logic, and the sense of one is the nonsense of the other. When relativity upset Newtonian physics, we were at least told that it would not make any perceptible difference to the man driving a car or operating a lathe. But these economic ideas come into the realm of everday policy and give us opposite prescriptions for matters such as wages or balancing the budget. It is a good deal as if the world we have to work in were on both sides of Alice's looking-glass at once, so that we never know, when we see a garden and want to get into it, whether the thing to do is to walk toward it or away from it. Alice at least knew on which side of the looking-glass she was at any one time.

We had learned that productivity was the great economic good, and that breaking machines or limiting output was the great economic error. Now we are learning that high productivity breeds its own variety of trouble, which can easily take the form of lack of jobs; and that is trouble of a more serious social quality than being deprived of a few of the latest advances in the way of goods. But if we are tempted to decide that the thing to do is to go back to cruder and less productive ways of satisfying our wants, we

are reminded not only that we need the latest techniques and the utmost productivity to avoid being helpless targets for warlike aggression, but that for strictly economic reasons we must keep on growing or we shall go backward. One of the most baffling paradoxes of growth is the idea that we have difficulty in finding jobs for all the oncoming generation of new would-be workers because there are not enough of them — the population is not growing fast enough.

We had been living in a world supposedly obeying laws of economic equilibrium, in which a disturbance tended to correct itself. Now we discover that disturbances are self-reinforcing; and while this presumably has some limits, they are very vague and uncertain in the present state of our knowledge. Indeed, they may never become entirely certain, since it takes a good deal of time to produce quantitative laws of economic reactions by the methods of statistics; and the changing behavior of the economic material may keep always a little ahead of our tested generalizations about it.

Our common sense told us that whenever you choose to have more of one thing, that means you must take less of something else; but on the back side of the looking-glass, if you produce more of one thing, that results in producing more of other things too. We knew that breaking windows cannot make anyone more prosperous except the glaziers; now that seems too simple and even doubtful. We knew that if you want more capital goods, you must produce less goods for consumption; now we find that producing more capital goods leads to producing more consumption-goods also. Or we knew that a country that diverts a huge part of its energies to war must get on with less peacetime goods; instead of which we find by experience that we were able to devote a quarter of our energies to war and still have more peacetime goods than before. When we were devoting

nearly half to war, and cutting out most of the output of peacetime metallic durables, still output of other peacetime goods was enough larger than before so that total civilian consumption was hardly diminished. The worst trouble is that these conflicting sets of principles are both true; and we are left with the need to find out how they fit together, and where each applies.

We knew that thrift is the way to prosperity, only to be told that the only way for a country to lift itself out of depression is to live beyond its means and go in debt. As to foreign trade, the practical world never did get rid of the idea that a country gets richer by sending more goods abroad than it receives in return, and does it faster than if we receive as much as we send, or more. Now this idea has become academically acceptable; and if freer importation is to be defended, it must be on the ground that in the interests of friendly and mutually beneficial intercourse we cannot afford to prey on other countries by insisting on sending them our goods without taking theirs in payment, and thus exporting our unemployment to them. As to wages, when one interested party claims that an increase will reduce employment, and another interested party claims that an increase is imperatively necessary in order to maintain employment, the candid economist is forced to admit that he has no way of determining *a priori* that, in the nature of things, one must be right and the other wrong.

8. *Fitting the two worlds together.*

How is one to tell which kind of law applies in a given case: laws from the orthodox front side or the Keynesian back side of the looking-glass? The simplest formula is that Keynesian laws apply until we get full employment, and orthodox laws after that. This is a rough guide, but we have

seen, for example, that we do not jump from a condition in which increased spending takes effect entirely on production to one in which it takes effect entirely in price-inflation. The transition to full employment is not abrupt. And if it were, still this solution is not strictly reliable, since even when there is unemployment, spending more for one thing may mean spending less for others, and the old principles of economical allocation of spending apply. Another way of putting it would be that Keynesian laws apply wherever production is limited by total demand, short of total power to produce; but this is not so much an anwer as just another way of stating the question.

Another hypothesis is that Keynesian laws apply to short-run movements and orthodox laws to long-run equilibria; but this hardly fits the case. Deficit spending, for example, may have long-run consequences that set limits on its usefulness; but the only way to find out is to study the long-run impact of deficit spending. Will it build up a burden of transfer-payments of interest from industry to bondholders that will aggravate the disease it was meant to cure? Or can this be avoided? The question whether higher wages lead to less employment, or to more, or have no effect, probably depends on how high wages go, and whether profits are or are not free to protect themselves by a rise in prices. But this again is a difficult problem to be studied in its own right.

And so there seems to be no machine made way of deciding which kind of law holds. Neither tells us all about a given case, and the only thing to do is to examine each problem in the light of the possibilities suggested by both kinds of theory. If and when one arrives at an answer, it will probably be found to go beyond the simple formulas of either kind. The Keynesian formula is a striking antithesis to orthodoxy, where just such a striking antithesis was needed to break through the crust of outworn ideas. It

remains for the next generation to fashion a synthesis, both in theory and in policy.

9. *The larger problem: the economy of organized groups.*

Will this synthesis be possible? And if possible, will it be consistent with a social and political structure that could fairly be called free and democratic? These are real and serious problems. The course that lies ahead of us seems to contain two possible "roads to serfdom." In the first place, if the state is to do what it seems to be called on to do in controlling and energizing the activity of the economy, it will need a vast amount of administrative discretion, and this raises all the questions with which Professor Corwin dealt in his lectures of last year. Stabilization, in particular, calls for action too quick to wait on the deliberations of Congress. Congress can furnish a system of taxation and social security which affords some "built-in" stabilizing effect, automatically reducing tax burdens and increasing disbursements when income and employment fall off; but this can hardly be sufficient to bring about real stability.[11] More executive discretion seems necessary if the job is to be done. Thus elected representatives may lose effective control of policy.

More serious than this is the question what the organized groups in our system will be doing while the state is trying to hand them the material elements of security on a political platter. Can the state deliver enough to satisfy them all, and if not, will they start quarreling among themselves over the proceeds, and will this defeat the whole plan unless they are somehow subjugated? And if so, is this the "road to serfdom" on which we are embarked?

Keynes recognized the defensive role of trade unions in

[11] Cf. *Jobs and Markets*, by Research Staff, Committee for Economic Development (1946).

resisting the deflation of wages in depressions. But what of their aggressive role when demand is strong? If they are assured of a high demand, will they press for wage-increases, on penalty of cutting off services that are indispensable to the community, and thus either wreck production by destructive stoppages or convert high demand into an endless cycle of inflation, until the classes that lack what is called, by courtesy, "bargaining-power" are left unable to buy their share of the products, and deficient demand arises again in a new form, and we are faced with unemployment once more? Will construction-costs, for example, reach a point at which only millionaires, or government, can afford to build houses?

Have organized groups, in gaining power to protect their reasonable and necessary security against the excesses of competition, gone farther and gained power to destroy the necessary and salutary checks and balances that competition imposed on private self-interest? And if they have gained this power, can they be expected to refrain from using it, in a society whose tradition is one of using all the economic power one has? Have we reinstated the socially suicidal principle under which everyone undertakes to get rich by creating less and demanding more? And have we submerged the only discipline, short of centralized dictation, by which a people in whose natures self-interest is a strong and permanent force, emphasized by long habit and tradition, can be induced to pursue it by the socially constructive method of creating more and demanding only such equivalent as all can have on fairly corresponding terms?

10. *The postwar wage-crisis.*

This country's postwar experience, so far, affords some disquieting indications, and some more hopeful ones. The disquieting factors are obvious; the hopeful ones are less

spectacular, but may prove more enduringly important. We have, for the time being, achieved the goal of substantially full employment in peacetime, without deliberate government support, but on a basis that cannot be counted on to endure. It has been accompanied by a wave of strikes that have disrupted or threatened essential services and have roused public opinion to an attack on the existing degree of power possessed and exercised by unions. The resulting wage-increases have been accompanied by an increase of prices that has substantially canceled the gains for organized labor and left other classes with seriously reduced real buying-power. The increase in prices was not all due to the increase in wages, but a substantial part of it was, and the threat of a "second round" remains.

This episode was due partly to conditions that will not be repeated, arising from the immediate transition back to peace, following what happened to wages during the war. Basic wage-rates had substantially kept pace with rising costs of living, while increased hours and overtime pay had increased weekly earnings a great deal more. The initial postwar wage-demands were made with a view to maintaining the wartime increase in weekly earnings while hours went back to peacetime standards, and overtime was reduced to the ordinary amount that results from irregularities when the average working week is normal. Ordinarily such an increase in basic rates would come when increased productivity warranted it; but in this case it came without reference to productivity and at a time when productivity was temporarily reduced in many industries that were shifting back to peacetime production and many of which were temporarily operating at very low rates. The dominant rationale of the increase was to maintain purchasing-power. In some leading cases price-increases were admitted necessary to meet the wage-increases, and in other

cases price-increases took place after the end of price-controls, though the necessity for them was disputed.

The fact that demand was in general strong enough to stand the price-increases undoubtedly influenced the outcome. The initial wage-demands were made before the expected demobilization slump in demand for labor had time to materialize; and increases were made easier to grant because this slump did not materialize as expected; rather the market remained in a condition able to stand some price-increases without, for the time being, curtailing sales and employment. There seems to be some doubt whether the market would respond so strongly to a "second round." At the moment there is a lull on this front. Leaders have announced that the first round was only an installment, and agitation is keeping the issue open; but what this portends in the way of action remains characteristically uncertain. The diplomats of labor, like international diplomats, do not show their hands readily.

Labor has felt the weight of public displeasure, aroused, not by wage-demands in general, but by a willingness to cut off essential services from the public, sometimes for the sake of a rather trifling gain above what could have been secured without striking. Indeed, in some cases there must have been some question raised within the workers' own ranks whether such costly gains were worth while, purely from the standpoint of labor's own pocketbook. And leaders recognize the futility of wage-gains that merely lead to inflation of prices. On the other side, both employers and government have felt the power that now resides in fifteen million organized workers, and have no desire to provoke a conflict. Perhaps the most hopeful sign is the disposition of both to argue their case before the public. True, the arguments used on both sides suggest a rather cynically low estimate of the public intelligence, and a liberal use of red

herrings; but this is characteristic of popular discussion in general. It is only more serious here in proportion as the issues are more serious.

11. *Prospects for the future.*

On the whole, there seems to be no great danger of a rapid, runaway wage-price spiral, enforced by irresponsible wage-tactics of organized labor; but the logic of the situation of labor leaders makes it likely that there will be a gradual or intermittent pressure in that direction. Labor has a healthy desire to get what it wants by its own efforts, in addition to whatever favors it may get from government; it is organized for the purpose; and each leader is under strong pressure to bring home some bacon at appropriate intervals. If this means a price-increase, his members gain at others' expense. On the whole, it seems rational to expect some gradual or intermittent inflationary pressure, the chief question being whether it will go to really harmful lengths.

Lord Beveridge takes this tendency quite seriously and proposes to meet it by direct control of the prices of essential goods and services, and cases of special temporary scarcity, leaving wages to be fixed by collective bargaining, but recommending provisions for voluntary arbitration, with employers to keep standard accounts and make the essential data available to the arbitrator.[12] He suggests that, with control of prices, one may hope that labor will refrain from inflationary wage-demands; otherwise such a hope would not be reasonable. This was written before the American experience with fact-finding boards in the winter of 1945–6, which ended in an inflationary wage-increase.

Lord Beveridge believes wages should be fixed by reason,

[12] Sir William (later Lord) Beveridge: *Full Employment in a Free Society*, especially pp. 198–203.

operating with facts. He thinks wages should rise as fast as increased productivity makes it possible without raising prices; but he does not specify standards that would tell how to deal with the fact that productivity in some industries increases a good deal faster than in others, yet the benefits of the increase should be equitably diffused. Perhaps Great Britain is better able to make such plans work than we are, with our larger and more heterogeneous population and economy; but our experience indicates that if the Beveridge Plan were applied in this country, it would not be proof against creeping inflation. Apparently, aside from temporary emergencies, the public would choose to take its chances of a long-run wage-price inflation, without benefit of price-controls or regular government-sponsored provisions for arbitrating wage-disputes.

It is in the setting of these forces and problems that our society embarks on the undertaking of assured reasonably stable and adequate employment via stable and adequate demand. Whatever market mechanisms may be employed, whether Keynesian ones, or modifications, or different devices, will have to operate in this setting; and the setting may determine whether they will succeed or fail. The probability is that Keynes was right in holding that a competitive adjustment of prices, wages, and access to occupations is not enough by itself to assure full employment; but it seems also that a monopolistic set of adjustments can prevent a reasonable approach to this goal. Wages and prices cannot safely be ignored. Thus it seems that the Keynesian revolution in economics is destined to become a part — a very important part — of a larger revolution, which has changed our economy from one of competing units to one largely composed of organized and conflicting groups. The problem is one of bringing about plenty and security in this group-organized economy. More broadly still, it is the problem we have been facing through-

out these lectures, of bringing these groups together into a co-operating economic community.

The principle remains valid that private monopoly power is not safe or tolerable. This is true even if those who possess it exercise it in what they consider a reasonable way, limited to what they consider just demands. No single interest can safely be left to be the judge in its own case. Yet the basic right to organize is vital, and so is the right to strike, except on services interruption of which would threaten the public health or order or paralyze its necessary activities. With these exceptions, the right to strike cannot properly be eliminated, if government had the power; and the power does not exist. Organization activities can to some extent be curbed, and particular legal rights limited; but organization is here to stay, and individual workers cannot be compelled to work against their will. In this fundamental sense our economy depends on its ability to command willing co-operation.

It has become a commonplace that political democracy is something that cannot be bestowed on a people by edict; it must be achieved and continually earned or it ceases to have reality. This is the basic difficulty encountered by our policy toward former enemy countries. We may be on the way to learning by experience that the same is true of high-level employment, of social security in the fullest sense, and of the building of a free, orderly, and democratic economic community. It seems likely that all these will turn out to be things that cannot be simply bestowed by a Santa Claus state, through Keynesian mechanisms or otherwise, on a people who expect to receive them as rights without corresponding responsibilities. Market mechanisms are not automatic panaceas; they are things that can be made to work, but only by a people that has learned to work together.

In the next and final lecture, we shall look at some of the

things that are requisite if our society is to hold together and make headway with this great task. In the nature of the case, no guaranteed formulas can be produced. Formulas will be important, but the limits of their efficacy remain uncertain, determined by key factors in the realm of people's attitudes. What we can do is to examine these key factors, point to promising methods of dealing with them and the kinds of incentives available, and clarify the general character of the goals that must be approximated if our social system is to preserve its most precious values in an age of mass industry and applied science.

V

Toward a Society of Responsible Individuals in Responsible Groups

1. *The approach.*

In approaching this enormous problem, it is obviously impossible to cover many of the specific issues, or even to draw up a list of the specific responsibilities of government, farmers, business management, and labor. I shall be forced to emphasize collective bargaining, because that is the most crucial problem, and despite the fact that I lack the specialist's competence in that field; but I shall be mainly concerned with matters that do not require such competence: with the forces on which we can take hold to make this great development work.

We may look first, for a moment, at the meaning of "responsibility." For our purpose the term has a twofold meaning. It implies a range of inner discretion for the individual, which he exercises with a view to the rights of others; and it also implies some accountability to others for the use that is made of this discretion. Thus, while it implies conscience, it does not rely solely on pure altruism. It is a quality that even our turbulent society can hope to develop.

2. *Is this decay or transition?*

Professor Shotwell has spoken of the "anarchy in which we are living today: the most dangerous since the fall of Rome." No one can doubt the dangers; and no one can be sure, except as an act of faith or despair, whether this is the inevitable confusion of a great transition or the death of a civilization — a civilization whose roots have rotted until they will no longer sustain the great weight of its trunk and the vast spread of its branches. We know this civilization still contains much sound timber; but civilizations that still contained much sound timber have fallen before this. The balance that tells the story of survival or decay may be a very delicate one, like the margin between defeat and victory in any close battle.

Decay may not necessarily mean that individuals are inherently worse than they were. The fact seems to be rather that it takes better individuals to hold society together when it grows more complicated, and when old disciplines have been weakened by the growth of intellectual and moral freedom and individualism. Strong individuals have conquered this freedom; and now all have it, whether or not they have grown up to the demands it makes. They reject old leaderships and disciplines, and most of them accept new ones; but the new ones may be made in the image of their prejudices, group interests, and resentments rather than the requirements of a sound social structure. And groups have gained such power that, under leadership that plays on these disruptive forces, they can shatter society rather than hold it together. The old sanctions that supported morality have kept their hold on some and lost it for others. And the content of codes is changing, with different codes for different classes. Community aid is more readily accepted. But chiefly the old code of irresponsible self-interest persists, after outgrowing the checks that once

minimized its dangers. The rebuilding of a generally accepted code is the kind of process that might normally take centuries, and in the meantime disaster could come.

One wonders if a people ever before faced the task of building a code of social conduct, and the spiritual basis on which it must rest, with so little willingness to accept leadership or authority except in matters of group interest that conflict with the interests of other groups. The skepticism of the age has been useful in puncturing the myths with which false leaders misled the people in their own interests; but if it goes to the lengths of discrediting all ideas other than those of fairly obvious self-interest — as it is capable of doing — it can destroy our capacity, as a people, for working together in a reasonable degree of freedom.

It is well to realize the seriousness of this crisis. But the most useful faith on which to proceed is the faith that this is transition, not decay. Indeed, we were living in a transition throughout the nineteenth century: a transition that baffled Henry Adams, who saw more deeply into it than most. The forms of freedom we then enjoyed were transitional forms, though many thought of them as final. But we can still hope that freedom itself is more than a passing episode, possible only in a brief interval before the logic of the industrial revolution has fully worked itself out. And this hope seems to be more than mere unreasoning optimism. Back of the shifting moral codes, normal man still seems incurably bent on living by some code that his fellows approve. There is discipline and leadership within groups; and between groups there is more recognition of the need of accommodation than often appears in public statements which take the form of political special pleading, with all the shortcomings to which that form of discourse is regularly subject.

The thing we call "capitalism" is on the defensive, and

the defensive does not win many wars. The initiative rests with other forces. There seems to be no going back to old-fashioned atomistic competition; and if there were, this would not solve the problem of security. We must go forward, on a basis in which security is included. But outright collectivism is, for us, on the defensive also, especially the centralized variety. And a decentralized collectivism, which might preserve more flexibility and freedom, is not the sort of thing one invents out of whole cloth. It would have to evolve, and would depend on the development of much the same voluntary restraints and disciplines that are needed to make our present mixed system work. So the present question is: in what constructive direction can we move forward? What positive structure can we build out of the forces that have the initiative at present?

3. *Résumé of the preceding argument.*

In approaching this question in these lectures we looked first at what people are demanding of the economic system: finding the crucial elements in various forms of security, material and immaterial, and in the conditions of a good life. From this standpoint we looked at the shortcomings of the system: at what the medieval system had and the modern free market took away. And we saw the need for a modern equivalent; not static and customary or authoritarian, but progressive, democratic, and voluntary, as the medieval system was not. We then looked at the human material out of which, and by and for which, such a system must be built. We looked at its capacities and their limitations, which expose them to harm under the free market. We looked at its needs: need of opportunities and incentives for a balanced and healthful exercise of people's capacities, including the social ones, which the market system neglects. We found that impulses cannot be fully grati-

fied, but the necessary repression is not the simple matter that rationalistic psychology pictures. It can be worked out soundly or pathologically, in ways that expert diagnosis can help to determine.

We then looked at the chief organizing discipline of the market system: competition, and found it practically nowhere accepted in its full rigor. It is subject to limitations in the interest of a minimum of security, which are generally approved, but which are hard to distinguish from exploitive monopoly, which is universally condemned. We found group organization an inevitable and necessary protection for the common man: his alternative to serfdom. Yet it offers no cure for mass unemployment, though monopolistic protections may make the disease worse, or may protect one group at the expense of others.

Next we looked briefly at the change that has come in economic thinking since the great depression of the thirties, with the study of the flow of purchasing as a factor limiting production and employment. Here we found a fruitful but incomplete structure of analysis, with a core of valid diagnosis and promising suggestions for therapy, but with loose ends that remain to be followed out and limitations that remain to be established by analysis or experience. And it has its bias. It affords a framework in which state policy may undertake to make the market mechanism work more smoothly, but it leaves virtually untouched those phases of security which are bound up with the protective activities and aggressive struggles of organized groups.

In particular, it has nothing to say about the immaterial aspects of security, which are so vital and which tend to be neglected in thinking that focuses on wages, prices, and production. These are things that can be adequately safeguarded neither by the impersonal state nor by the impersonal market, and they are often sacrificed in the conflicts of warring groups. Yet these agencies — state, market, and

organized groups — are the things we have to work with. If a tolerable *modus vivendi* is to be achieved, it must be by the interaction of all these agencies.

4. *Possible systems.*

It is appropriate to think of possible systems that might be substituted for the present one, including centralized collectivism, decentralized collectivism, and — in some ways most radical of all — a return to a system of thoroughgoing competition between large numbers of independent producing units. But these alternatives are not live issues for us today. They are either things we cannot have or things most of us do not want. Contemplation of them serves mainly to clarify the limits between which we must steer, on the course that lies inevitably before us. On the whole, it seems truer to say that there is only one possible system: the system of using the agencies that exist and trying to make them work together. This means a mixed system.

This still leaves room for important differences in emphasis, but they will not be total differences in kind.

5. *On what is it necessary to agree?*

Once in a while one encounters the contention that society will not have a sound or dependable basis for holding together unless it agrees on the religious basis of conduct, or at least on the philosophical basis. If social co-operation waits for this kind of unanimity, it will have to wait a long time — altogether too long, one fears. For there are not only conflicting philosophical and religious systems, but also the institution of free intellectual inquiry, scientific or otherwise, which is free to apply itself to a skeptical searching of the evidence for the axioms of philosophy or

the claims of revelation. Or it can turn its attention to the processes of deductive reasoning itself, and especially the grounds and meaning of its premises, in which its conclusions must already be contained. We need to be co-operating long before this process can yield unanimity, if it ever does.

From this standpoint, it is curious that some will argue that only a belief in God can make democracy reasonable, while others argue with equal conviction that only by shifting our focus from God to man can we lay a sound basis for real democracy. And to each the bearing of his religious or antireligious position on democracy is at least an added recommendation for it, in his eyes. But if people can agree on the desirability of democracy who disagree on philosophy and religion, then is it possible that faith in humanity and democracy may be a better common denominator for a "unified culture," and a more promising place to begin working toward it? One knows nominally Christian sects that lack this faith, and nominal atheists who possess it. The normal view seems to be that of the late Lord Tweedsmuir, who held it very important that a man have a philosophy, but less important what that philosophy should be. Or, in terms of our previous discussion, the fact that man is a social animal goes deeper in his nature than the rationalizations that he builds around it, to place it in his scheme of values or to connect it with things beyond the direct range of experience and observation.

Be that as it may, for our present purpose we need to agree on one thing: respect for the worth and dignity of men and their need and duty to work together in a society, contributing to the common enterprise and restraining impulses to aggression and exploitation — one's own as well as those of others.

6. Economic agencies are forms of government.

We are accustomed to thinking of government and business as distinct, occupying different areas, obeying different principles and forming the subject-matter of separate realms of study. But when we start to deal with organized groups, including business enterprises as well as labor unions, we find that we shall not understand them until we realize that they have acquired governmental characteristics and functions.[1] To get at their meaning we must apply governmental concepts in addition to economic ones. It is economic material, handled by governmental methods, and reacting with results both economic and political. And the governmental concepts do not apply without modification, for the relationships are different from those of the political government to which we are accustomed, and in some ways more complex.

The simplest distinction between the two fields starts from the conception that government has a monopoly on coercion, while private dealings are matters of voluntary bargain or exchange, between independent persons or legal entities, neither of whom is dependent on the other in a way that gives the other any coercive power over him. But the moment a bargain comes to involve a continuing relation, the parties become in some degree dependent on one another for the continuance of this relation, and the threat to break it off has some degree of coercive force. In practical terms, coercion is a matter of degree: of penalties of varying weight. And the loss of a job is a more serious penalty than a fine for speeding, the epithet "scab" is one of our strongest and most pervasive penalties, and even the ultimate sanction of violence is not, as a practical matter, confined to formal government.

[1] Cf. Leo Wolman, in *Wage Determination and the Economics of Liberalism* (1947), p. 94.

In representative government there is a threefold set of relationships, which has its modified counterpart in business concerns and unions. First, there are the ways in which the members make their representatives responsible to them, ultimately by choosing them on their records or their promises, and more directly by expressing their views on matters of policy that arise between elections. This extends through a legislative assembly to the executive, which is in direct charge of carrying out policy and to a large extent formulating it.

Second, there is the relation of government to governed — that is, to those on whom it has power to inflict penalties — or to those to whom it renders services in the carrying out of its functions. In the state these are mainly the same citizens who collectively exercise ultimate control over the government; but employer and union hold this relation to outsiders and especially to one another — which is precisely where most of the trouble comes from. In the state the protection of the governed comes partly from their power as voters and partly from constitutional limitations on government, judicially enforced. In industrial relations the corresponding protections are only in part legal; for the most part they are exercised through contract.

A free, equal, and competitive contract is perhaps on the whole a better democratic instrument than a majority vote. But actual collective bargaining contains many possibilities of oppressing parties, many of whom are not represented. The traveling public, which suffers in a transportation strike, has no contractual relation with the union, and its position as customer of the company is one devoid of power. And picketing ranges from mere notification of the existence of a dispute, through peaceful persuasion, to actual coercion of outside parties. There are quasi-govern-

mental powers here without appropriate protection for the governed.

Finally, there are the relations of one sovereign government to another, best defined, perhaps, as a field of anarchy, slightly mitigated by a "decent respect to the opinions of mankind," and by the beginnings of international law, which is, however, not yet backed up by any supersovereign power able to coerce a major national state. It is clear that industrial relations still correspond uncomfortably closely to the anarchic relations of states that acknowledge no sovereign with the right and power of dictating to them in the matters of dispute. There is, of course, a recognized sovereign over the parties, but with limited powers. Law has increasingly limited the field of anarchy, setting minimum standards for many features of the employment relationship and proscribing various tactics.

Wartime controls went farther, their real limits being set by the willingness of the parties to submit, under pressure of the national emergency. With this pressure removed, the government is now feeling its way into an experimental area of informal arbitrament without power, dependent mainly on the force of public opinion and the need to keep production moving. National public opinion has vastly more power over economic groups than international opinion has over sovereign states. Laws are also capable of bringing about some restriction of particular union powers and tactics. But there is still a good deal of collective bargaining that corresponds more closely to the negotiation of international treaties than to any other governmental act.

Summing up, the governmental aspects of organized private groups fall under the two headings of internal organization and external relations. Internally, the most prevalent type of organization of both corporations and unions prob-

ably could best be described as executive, which the membership can replace if dissatisfied, but which is dominant while it holds office, both formulating policy and executing it. But if the internal organization were the perfection of democracy, as an instrument for representing the will of the members, still that would not make the resulting structure democratic as long as it exerts power over non-members, who are not represented. Talk about the democratic way in which farmers are organized to restrict output, or about making unions more democratic, is rather misleading in its implication that the problem of democracy begins and ends with the internal organization of the pressure-group.

As to these treaty-like dealings in the economic realm, the best of them have a constitution-making character, setting up standing systems of rights and providing machinery for adjudication. The jurisprudence of industrial relations, as jurisprudence, would make an interesting study, especially such cases as are not interpreting a written instrument that has been agreed to by the parties, but are simply trying to settle a deadlock as to what the terms of the agreement shall be. Here there are mediation, corresponding roughly to an attempt to bring about a settlement out of court, and various forms of arbitration, the chief form at present consisting of "fact-finding" and a recommendation for settlement, made at government initiative but with only informal pressures available to induce the parties to accept it. This is case-law, and shows the tendency of each board to try to avoid responsibility for setting a precedent, while subsequent boards are sure to disregard such disclaimers and use the earlier findings as precedents just the same. Because there is no definite standard of a proper wage (where wages are at issue) and no power to compel obedience to the award, it remains a cross between arbitration and mediation, and has the earmarks of what Roscoe

Pound called primitive justice, in at least one respect: namely, that the dominant standard is to dispose of disputes somehow and keep the peace.[2]

With economic jurisprudence in this indefinite state, and with economic affairs in the hands of conflicting quasi-sovereignities, it would seem that we have at least part of a system of checks and balances — we have checks, but there may be some doubt whether they are well balanced. A closer analogy may be the concept of an international balance of power. When government first took action to increase the economic strength of farmers and organized labor, there can be no doubt that it was throwing in its power on the side of the weaker party, in true balance-of-power fashion. As things are now, the balance may need redressing in the other direction.

And one must remember that one great purpose of the policy of balance of power in the international realm was to keep the peace by discouraging aggression, and that it was adapted to maintaining a *status quo*. Within a society where the terms of economic dealings must be continually changing, mere balanced power may mean deadlock. This leads to two questions: that of standards for resolving deadlocks, and that of the motives on which responsible exercise of power may rest.

7. *Wage-standards.*

If one of the dangers consists in exaggerated wage-demands, is there an economically sound standard for particular wage-rates that might be applied by an intelligent arbitrator or, what is more to the point, might be approximated by the dealings of enlightened unions and employers, each of whom believes it is sounder to convince the

[2] See Roscoe Pound: "Liberty of Contract," *Yale Law Journal*, May 1909, pp. 458 ff.

other that his position is reasonable than to force down the other's throat something he feels is unjust? The question is especially important because of the dilemma we face in trying to prevent strikes that shut off community necessities. The problem is how to provide ultimate power to compel a settlement while encouraging voluntary agreement rather than undermining it.

The right to strike might actually be taken away in a limited number of essential public services. This would not mean forcing individuals to work, but might mean depriving them of seniority or other privileges if they strike. This would need to be balanced by assurance of favorable treatment; and it would hardly be practicable to assure such status to all the workers who might, under conceivable conditions, be in a position to coerce the public. Back of this, or instead of it, some general emergency power seems necessary.

This leads to a dilemma, because it takes two to agree, but only one to block an agreement and force resort to authority. So if either party has strong ground for hoping to do better by arbitration than by agreement, arbitration is likely to become necessary. Presidential arbitration in 1946 did just that, giving strikers more than was gained by others who took what they could get without striking. To avoid this in future calls for a different system, acting under stated standards, reasonable enough to influence voluntary negotiation, as well as affording guides to arbitration where that becomes necessary. Then if both sides really want to avoid compulsory arbitration, the road to free agreement may not be too expensive for either party.

The question might be approached by asking how the gains from increased productivity should be divided, that being the setting in which it is commonly worked out in practice. Here the basic principle, to which a competitive system would give effect, is that such gains belong only

temporarily to the persons responsible for making them. Ideally, these persons should have enough of the gain, for a long enough period, to give them ample incentive for taking the risks and making the investments involved, after which the improvement should become standard practice and its gains common property, as rapidly as competition can bring this about.

The simplest method is to distribute the gains to the customers in reduced prices, while money wages would remain unchanged unless the improvement made increased demands on the workers. But such a progressive decline in prices is probably not a natural outcome. What has actually happened is that hourly money wages have risen perhaps eightfold from 1820 to 1938, and hourly real wages nearly fivefold in the same period, though prices showed no strong and consistent trend in either direction, except for the effect of the first World War. From 1820 to 1945 the rise is about thirteenfold in hourly money wages and sixfold in real wages.[3]

But it is not reasonable that the gains should all go to the workers in the particular industries in which the technical improvements have been concentrated. On the competitive principle of equalization, relative wages in different occupations should depend on the quality of the work and the demands it makes on the workers; and these

[3] Cf. paper by John T. Dunlop, in *Wage Determination and the Economics of Liberalism* (Chamber of Commerce of the U. S., 1947), pp. 34, 36. Professor Dunlop kindly sent me his unpublished tables, from which the 1938 figure is taken. Cf. Fritz Machlup, in the same symposium, pp. 65–6. Cf. S. H. Slichter: "Wage-Price Policy and Employment," *American Economic Review Supplement*, May 1946, p. 304. Slichter thinks the slight upward trend of wholesale prices is deceptive, as not registering improvement of quality, and that, allowing for this, real wholesale prices have trended slightly downward. Cf. F. C. Mills: "Technological Gains and their Uses," *Science*, February 28, 1947, p. 220. Professor Mills finds average real income per capita, for the entire economy, multiplied 2½-fold from 1899 to 1945, during which time Dunlop's index of real hourly wages also rose 2½-fold. This is two per cent per year, compounded.

may be no greater after a technical improvement than before. Where technical advance has been more than the average, money wages should rise, but not more than the average advance of productivity in the whole economy can soon catch up with. This means that money costs will go down in these progressive industries, and their prices should go down correspondingly. Normally, the customer would get some reduction of price at once, to induce him to buy more; and would get the whole benefit of the reduction in money costs of production as soon as enterprise has been compensated for its work of innovation, and as soon as the improved processes have become standard practice in industry. Where technical advance has been less than the average, money wages should still rise, to give the workers their share of the general average rise in productivity; but this will mean that unit costs will rise, and prices must rise correspondingly.

Such an adjustment is not simple. It would be simpler if there were a good measure of the total rate of gain in productivity in the entire economy, and if this were used as a prima-facie guide in adjusting wages.[4] Estimates of the prewar trend in manufacturing have been in the neighborhood of 2½ or 3 per cent per year; but for the economy as a whole it might not be safe to count on much more than, let us say, 1½ to 2 per cent. Past trends of real wages are baffling, as indications of what to expect, since their upward trend was interrupted from 1893 to 1914, and then resumed with a jump, so that a statistician could project a larger or smaller rate of increase, according to taste. Therefore a projected trend cannot be of much help, and an up-to-date current measure of productivity would be needed.

There would, of course, still be the question of relative wages for different occupations. These show a good deal of stability within the same establishment, between establish-

[4] Cf. J. T. Dunlop, loc. cit., p. 46.

ments in the same industry, and between industries; but they are subject to adjustment; and differentials are often an issue in disputes, so that existing differentials could not be simply taken for granted.[5] The technique of "job evaluation" seems to be developing, and might conceivably be extended to shed some light on the structure of wage-differentials in the economy as a whole; but it is hard to imagine it putting an exact valuation on the work of garage mechanics, farm-hands, grocery clerks, and teachers. Tentative ratings would undoubtedly have to give way to any customary differential that has strong support from the workers themselves, or to the judgment of an employer as to what he needs to pay to get the quality of service he wants. The current trend seems to be toward reduction of differentials for skill.[6]

If wage-differentials were left to arbitration, the evidence presented to the arbitrators would presumably have a selective bias in favor of higher rates for the particular occupation being considered. It would be an interesting experiment to conduct twenty such cases at the same time, where the only issue to be passed on was the relative wage as compared to wages in the other nineteen industries, and see if the net result was not a recommendation for an increase in the bulk of cases.

But even if the experiment were tried and came out in that way, the workers would probably still be opposed to leaving wage-rates generally to be determined by arbitration. Arbitration with power has an important place in settling disputes under the terms of an existing contract, and may have to be available as a last resort in the case of essential services, but nobody wants it to become the regular way of determining what the terms of a contract are to be.

[5] Cf. J. T. Dunlop, loc. cit., p. 42.

[6] Cf. E. L. Thorndike: *Human Nature and the Social Order*, p. 668.

One criterion for adjusting particular wage-rates, which received a good deal of attention during the strikes of 1945–6, is the "ability to pay" of a particular industry or a particular employer. The automobile workers' union used this criterion in leading off with wage-demands on General Motors, well known to be able to pay more than other companies in the industry. It was presumably well known that wages in the rest of the industry would follow whatever lead might be set in this case, so that the relevant ability to pay was the ability of the whole industry. Previous union policy had been opposed, with good reason, to basing wages on the ability-to-pay of single producers, since that would lead to inequalities and would call for reductions in some cases — as Mr. Thomas did not fail to point out to Mr. Reuther.

But if a whole industry is prosperous, are the workers in it entitled on that account to a wage-differential to which the character of the work they do would not otherwise entitle them? The competitive principle says: "No, the benefit should go to the public in reduced prices." The principle is a sound one; and while an utterly rigorous application of it might go too far and be bad for morale, there is no danger of anyone applying it overrigorously. But some employers seem to have got a notion that if their profits are high on account of an improvement, or some other advantage that may be temporary, there is something to be said for giving the customer most of the benefit, rather than having the workers capture it in the shape of an abnormal wage-differential, which might become a vested interest. If conditions should change, it would be easier to raise a price that had been lowered than to reduce a wage-rate that had once been raised. Such a wage-increase might make for good feeling on the part of the workers, but of a sort that is not too stable. Of course, refusal to share any of the gains with the workers would

make for very bad feeling, and this would not be avoided by giving the whole gain to the customer, in a price-reduction. Compromise seems the natural outcome.

Assuming that differentials are fixed somehow, is there any definable principle that governs the level of wages in general? Economic theory says that they are limited by the "marginal product of labor," and generally stops short of defining what this means in terms that could be translated into a wage-rate in dollars and cents. On examination, it turns out that the kind of "marginal product" that can determine a workable wage-rate is the kind that is implicit in the employer's long-run decisions to alter the proportion between labor and capital in his establishment: to use more labor and less labor-saving devices, or vice versa. And this is a decision that must be based on rather uncertain forecasts, not exact measurements. So it cannot be expected to be very precise. Moreover, if employers do decide to economize on expensive labor by using more nearly automatic machinery or larger mechanical units, the first effect would be an increase in the demand for labor in the equipment-making industries, and this might temporarily outweigh the reduced demand resulting from the use of labor-saving devices. This reinforces the conclusion that "marginal productivity" does not constitute a very precise wage-standard.

Another idea of the proper wage-rate is the wage that results in maximum employment. But here one would simply run into endless dispute as to whether, in any particular situation, this calls for reducing wages or raising them. Since high wages are desirable in themselves, they are always likely to be given the benefit of the doubt, so one might define this standard as the highest wage that could be paid without either forcing an increase in prices or reducing profits to a point that would reduce employment, starve capital and enterprise, and cause losses to too

large a proportion of producers. Still another attempt to define the desirable wage might be: more than employers in general would pay without strong union pressure, and less than strong and strategically situated unions could enforce if they used their power with complete relentlessness.

None of these ideas seems to promise that boards of arbitration could calculate the correct wage with anything like precision. But between them they go far to describe the limits within which the desirable wage-rate must fall. Anything that can be done to formulate these standards and secure general agreement on them, "in principle," would tend to lessen the area of dispute and should make agreement easier to reach, as well as helping to guide arbitrators if agreement fails and some brand of arbitration becomes necessary.

But the most important thing is to make it unnecessary, by voluntarily reaching reasonable and socially workable agreements. And the first thing needed is that people should want to reach such agreements, and want it badly enough to be willing to make some concessions to bring it about. What are the motives on which such action depends?

8. *Why be reasonable? The question of motives.*

Here we come to something basic to the preservation of freedom in a society which has to hold a complex economic system together and somehow keep it going. The most cynical view is that there is nothing to be counted on but selfishness; and salvation lies merely in selfishness that is sufficiently enlightened and far-sighted. There is much ground for this view. Bentham came to the conclusion that, while individuals sometimes act from other than selfish motives, groups never do; and the behavior of American pressure-groups would hardly do much to change this opinion. On this basis the one hope is that each group

will realize that if they attempt to exploit the others too grossly, the others can and will retaliate and that each can do the others a great deal of harm if driven into an attitude of retaliatory warfare, with the result that each will stop short of provoking such a war.

This sort of logic is good as far as it goes, but it is not enough. It will break down unless it is backed up by a *recognition that others' interests are entitled* to respect in their own right. In the first place, it requires that the group leader be a devoted and far-sighted statesman toward the interests of his own group, and a completely cynical opportunist toward all other interests in his community. And while this kind of double standard does exist, it hardly exists in such a complete degree. It seems on the whole more credible that a leader who perfectly exemplified one of these attitudes would not perfectly exemplify the other.

In the second place, the most efficient possible calculation of consequences is fallible. Hitler possessed uncanny insight into others' probable reactions to his policies, but it did not steer him safely along his chosen route of absorbing his victims, one at a time. The opportunist does not want to provoke hostile retaliation; but he wants all he can get short of that, and is regularly impelled to take "calculated risks." Where this is done consistently, it is only a question of time before the calculation goes awry and the hostile reaction materializes. If such calculation does not prevent armed conflicts, still less can it be counted on to prevent industrial conflicts, which are so much less seriously dreaded.

In the third place, if the opportunism were completely cold-blooded, it might succeed in avoiding conflict more of the time than we actually do; but in practice it is sure to be combined with prejudice, with resentment, with convictions of rights — my rights, not yours — and with the pride of consistency that will not yield a position once

firmly taken. And these will make doubly sure that conflict will not be escaped. Acceptance of the theory of enlightened self-interest, as the sole reliance, could not eliminate all emotional elements, but might eliminate the constructive and helpful ones. There would be an endless movement of groups, redressing what they conceived as unfair disadvantages and thereby putting other groups under what they would consider a relative disadvantage, which they, in turn, would feel that, in self-defense, they must redress.

Men are courageous; and men in groups are especially averse to seeming to be moved by cautious fear of what the other fellow may do to them, into abandoning something they are persuaded is rightly theirs. Their fear of being thought timid by their fellows is likely to prove the nearer and stronger fear. And the net resultant will be conflict, probably resolved in a progressive inflationary spiral.

One saving factor there may be in all this: namely, that if people start considering the rights of others as a matter of pure policy, they may acquire a spontaneous interest in acting reasonably, by the kind of transfer we have already noted. Or the broadening of the opportunistic attitude may have a similar effect. There may be less chance that people will restrain themselves for fear of retaliation *in the particular case* than that they might accept the idea that it is expedient *as a general rule* to consider the claims of others. From there it is not far to admitting that there may, just possibly, be some elements of reason in the other fellow's side of the case. The two kinds of ideas could very well reinforce one another.

In the regular business of running the state we should have outlived the idea that the general will can be found, or the general interest promoted, by counting the noses of voters, each of whom votes solely in terms of his personal interest, and elects officials who are equally selfish and will serve the voters' interest only so far as is personally worth

while. The perversions of this kind of politics are by this time too familiar to need mention, especially where the voting goes by organized groups. John Stuart Mill thought that the extension of the suffrage to working men carried the danger that, as a numerically supreme class, they would need to consider nothing but their class interest. He hoped to offset their numerical power by plural voting for the intelligent classes, and to balance the politics of class interest by a leaven of public-spirited voting, so that a given class, with the aid of this leaven, might be "strong enough to make reason prevail, but not strong enough to prevail against reason." [7]

This remains a sound ideal. But if voting goes solely by interest-blocs, the leaven becomes ineffective and the ideal fails. It takes widespread possession of moral backbone, by officials and voters, to keep either private enterprise or representative government sound.

This applies also to the leadership of organized groups. The group leader is a politician, and politicians do not commonly thrive on urging their constituents to yield their interests to others.[8] Rather, natural selection in this kind of struggle assures that they will each persuade their constituents that they have a right to a great deal more than they are getting. It is practically a foregone conclusion that the sum of such claims of ultimate right would add up to a good deal more than society has to divide. The leader is likely to know this better than his followers, and in the interest of workable settlements he may exercise some restraint on the immediate demands that he has himself helped to stimulate. He knows that a system that can possibly double real wages in fifty years offers the workers a

[7] John Stuart Mill: *Representative Government*, Chapter viii, especially p. 289 (Everyman ed.).

[8] Cf. Fritz Machlup, in "Wage Determination and the Economics of Liberalism," pp. 52–4.

good bargain (if this can be combined with reasonable security) at the price capital and enterprise charge for their services. But his political position in his union may not be strong enough to permit him to exercise very much restraint. It will help toward this end if the opposing interest is strong enough to protect its essential needs.

There is still the danger that, for example, labor union and employer may compose their differences at the expense of the public, including other labor. One check on this might come from the growing influence on local union policy of a nation-wide federation which includes in its perspective the workers in many trades and industries and considers how they are affected as consumers by price-increases, brought about by wage-increases or by limitations of productiveness in particular industries. Such an organization is too comprehensive to be fully governed by ordinary monopolistic calculations in their usual restrictive sense, and is impelled toward some approach to equitable standards of adjustment between different occupations. Even teachers cannot nowadays be ignored.

What is suggested concerns the influence of the federation over the policies of its constituent unions, and should be sharply distinguished from tendencies to complete domination of locals by the central officers of their national unions.[9] Local autonomy is quite rightly maintained, if

[9] This problem has various facets. Slichter notes "a growing tendency for the national officers of unions to place local unions in national custody"; a power that is needed on occasion, but is an obvious danger to proper self-government. And while the influence of a nation-wide federation on the general character of union wage-policy is likely to be in the direction of more far-sighted and prudent action, the formulation of "uniform national policies" is felt to limit unduly the freedom of negotiators to deal with special local conditions (Massachusetts, Report of Governor's Labor-Management Committee, March 18, 1947, House Doc. No. 1875, p. 12). And Leo Wolman notes that the growth of union centralization has required coercive measures to bring it about. See *Wage Determination and the Economics of Liberalism*, pp. 99–100.

only because one of the things unions are needed for is to give the worker a chance to belong to something that is not overwhelmingly large. And while the rivalry between the two great federations is an obstacle to sound long-run policies, one would hardly want the whole field of employment to be in the hands of one all-embracing federation, with power over locals' policies. That would be too much like the Roman Empire, from whose jurisdiction there was no escape.

Workers are moved, not solely by individual self-interest, but by group loyalty. If they were not, labor organization would not have gained the size and strength it now has, even allowing that this is not the only factor that has been at work. And despite jurisdictional and other disputes, this loyalty does extend in increasing degree to include workers as a whole. Toward employers it is probably too much to expect that loyalty will very strongly affect actual negotiations; here the most that we have to build on is a general willingness on each side to recognize and concede the minimum necessities of the other's position, though there will continue to be disputes as to what those minimum necessities are in any given case.

To sum up, sheer enlightened self-interest must be heavily relied on in building toward a workable system of relationships between groups, but it is not in itself sufficient. It is mixed with, and powerfully supplemented by, other motives which are of a social character as far as they go, and which are in process of broadening toward greater inclusiveness. Rudimentary standards of equity already have some place in the picture and may be further developed.

Perhaps the chief condition necessary to permit these standards to develop further is a strong total demand for labor, and for agricultural products, which may free both workers and farmers from a feeling that self-preservation

requires each group to protect itself to the utmost, whatever this does to other groups. But to be effective, this condition would need to last long enough to give some feeling of security about its continuance, and probably it would also need to be fortified by safeguards in which people could feel some confidence. Further, it would need to be accompanied by sturdy resistance to the efforts of strong groups to use it as an opportunity to make monopolistic exactions without paying the regular economic penalty of reduced demand. If high demand were really guaranteed, it might merely be exploited in this way by groups, some of whom are already in a specially favored position.

9. *Specific dangers, if motives to responsible action fail.*

There will be some exploitation in any society we can build. There always has been, and societies have generally survived it. An authoritarian society can stand an enormous amount of it and still hold together; and even a democratic society may be able to stand a good deal without lapsing into the chaos and decay that might be its nemesis. It is time to spell out more specifically what the real dangers are and what form they may take.

Of course, if common personal honesty disappears, and positions of trust become nothing but openings for private advantage, then we shall be ruled by racketeers in all the seats of power, state, business, and union. Then our civilization, and freedom with it, will have vanished in a new form of barbarism. This will not happen so long as there are enough honest individuals who are willing to be eternally alert to it and eternally fighting against it. All this we may take for granted. We may take for granted, too, the normal, useful, constructive activities of group organ-

izations: their welfare work for their members, their growing share in the welfare work of the community, and the many instances, for example, of satisfactory and co-operative relations between unions and employers. We have already recognized that these groups are indispensable parts of our society. What we are looking for now are dangers that might arise from the normal, honest policies of groups if they push their group interests without limit and without enough regard for the rights and interests of other groups or individuals.

Such dangers might take two main forms. In the first place, as already noted, immoderate demands by labor, or rigid resistance by employers, or both, might lead to such excesses of strikes, industrial strife, and the stoppage of essential services that things would seem intolerable to the general public and some kind of coercive power might come into being as a refuge. The power might be that of political government or that of a supreme labor organization, with or without agricultural representation. Or government, attempting to take this power, might rouse labor to resistance that would amount to civil war.

In the second place, and perhaps more likely, organized groups might bring about an inflation that demand would not support, or might demand full employment under a system of private enterprise while pricing themselves partially out of the market, or following restrictive policies that made full employment an impossibility, or putting burdens on employers that deprived them of what they felt to be their essential security, making them unwilling or unable to continue a vigorous flow of investment and employment. Then state spending or other state action might be resorted to, increasing the public debt and further impairing the employer's sense of security, until a collectivistic system appeared the only way out. In either case, a peo-

ple that wants private enterprise might lose it, through immoderate demands and irresponsible use of power to enforce them.

10. *What is freedom in collective bargaining?* [10]

The expression "free collective bargaining" seems to refer to bargaining free of compulsory arbitration. But the question may well be raised whether "free collective bargaining" is not a contradiction in terms. The answer would seem to be: not much more of a contradiction than is involved in freedom generally, since it implies limitations. The essential condition of reasonable freedom is that power should be fairly balanced. "Equal" would perhaps be an inappropriate term, since there seems to be no formula to define strictly equal bargaining-power in the labor market. But one can specify some kinds of things that make it unequal. One would be unorganized workers bargaining with any large employer. Another would be nationally organized workers bargaining with competing employers, one at a time; or workers threatening to strike against an employer who is under obligation to maintain uninterrupted production, or who has a contract on which he cannot afford to have work delayed

[10] On this general subject, useful recent references include the following Report of the Governor's Labor Management Committee (Massachusetts), March 18, 1947, House Doc 1875 *Collective Bargaining*, a policy statement of the Research and Policy Committee of the Committee for Economic Development, February 1947 Sumner H Slichter *Trade Unions in a Free Society* (1947), 'Wage Price Policy and Employment,' *American Economic Review Supplement*, May 1946, pp 304–18 Eli Ginzberg "Tomorrow's Labor Leader," *Labor and Nation*, November–December 1946, pp 29–32 *Goals of Cooperation* (National Planning Association, December 1946), Metz and Jacobstein *A National Labor Policy* (Brookings Institution, 1947) Report of U S Chamber of Commerce Institute on Wage Determination, held January 11, 1947 Statement of Herman W Steinkraus, on behalf of U S Chamber of Commerce, to Committee on Education and Labor of the House of Representatives, March 6, 1947

One significant symptom of a change in the balance of bargaining-power can be found in proposals for laws to protect particular rights in the bargain. These nowadays often contain provisions to prevent the recipient of the right from waiving it by consent, in a contract. Such provisions used to be used to protect workers from being coerced by the superior bargaining-power of the employer into abandoning legally granted rights. Now they are proposed to prevent the employer from waiving bargaining-rights that it is sought to give him. The inference seems obvious.

Mere freedom from compulsory arbitration seems to leave a good many openings for private coercion, against which safeguards are needed before the institution earns the name of freedom.

First, the worker should, in principle, be free of coercion to join a union or a particular union. He will be under plenty of informal pressure in any case, and freedom from formal coercion is not easy to codify. The closed shop and the union shop are much disputed issues at present, and there are strong reasons for and against both. The closed shop, as carrying the requirements that a worker, to be hired, must already be a member of a union, has greater monopolistic power and is naturally open to the greater objection. Either may be justifiable in particular cases, though not as a universal rule, and not unless unions accept the obligations and controls that go with these practices. And these would be unwelcome.

For where either closed or union shop exists, union membership is affected with a public interest. It needs to be open at low fees; and the worker needs protection against arbitrary deprivation of his standing in his union just as badly as he needs protection against arbitrary discharge by his employer. The same principle applies, and the same kind of machinery for protection is appropriate. In addi-

tion to all this, one feels that there should be some tolerable alternative to union membership open to the genuine individualist — the true conscientious objector to union control.

Secondly, while union officials must exercise large powers, they should be ultimately and effectively accountable to the members. Particularly if the official has arbitrary power over the member's livelihood, the member has not gained freedom through his union, but has merely exchanged one servitude for another.

Thirdly, universal rules and practices should be regarded with the greatest suspicion, and should be adopted, if at all, only after it has been convincingly shown that they work equitably in all cases. The essence of freedom is the existence of alternative kinds of conduct; and if a universal rule leaves no alternatives, freedom is seriously impaired. Whatever German philosophers may have said on this matter, it seems that in the complex field of industrial relations there are few specific practices that deserve to be made universal rules; and the safest universal rule is to avoid such universals, and leave safety-valves open.

11. *Conditions favorable and unfavorable to free agreement.*

In providing conditions favorable to free agreement, there are things government can and must do, and limits beyond which it cannot usefully go. There are things that rest with employers, and others that rest with unions; and success hinges on the private agencies doing their part and not laying too much of the burden on government. Government can enforce existing laws against violence and coercive picketing, and can free traffic — including interstate traffic — from extortionate exactions. It has already outlawed the "yellow-dog" contract under which workers

could be coerced not to join a union, and it can — imperfectly and with difficulty — balance this with protection against coercion to join. It can outlaw particular kinds of strikes and restore the injunctive remedy against them, though the extent of the practical power to prevent strikes remains in some doubt. And it can strengthen the mechanisms of conciliation and the rules promoting resort to these mechanisms.

How far such governmental action should go is also doubtful. Needless to say, there is no danger that it will go far enough to cripple the power of unions, though that charge will inevitably be made against any curtailment. The only legitimate aim is to curb power short of supremacy and to increase the forces that make for reasonable adjustment. And government can reduce the more justified pressures toward policies that would be economically unsound in a perfectly operating economic system if it can learn to maintain ample demand, with safeguards against abuse of the bargaining-advantage it affords. But government cannot, by edict, replace resentment with harmony.

On that score it is not possible to say much that will apply to collective bargaining as a whole, since there is such a wide range of attitudes, from confidence and cooperation to mistrust and conflict. Naturally, where either side thinks the other is aiming to destroy it, there is little chance of harmony. Until recently there has been real basis for the union claim that some employers were aiming to destroy them; but at present this stage seems to have been outlived, leaving merely echoes to plague public discussion and private negotiations with quarrelings over the past. Employers, on their side, have comparatively little reason for fearing that union policies are moves in a program ultimately aimed at destroying the system of privately owned and operated business. They would have less

wage-increases that force up prices; and if this is to be effective, it seems to require prompt and dependable data on profits, not of the most profitable concerns, but of "representative" ones.

As between occupations, economic law can work if workers are free to move, and if an excess of workers in a particular occupation can take effect on wages in that occupation and can thereby increase employment there. But that is a large series of ifs. Workers move not so much toward high-wage industries and localities as toward those in which jobs are open. Mobility is needed, promoted by a good nation-wide employment service, to enable pockets of unemployment to be absorbed. But equity in wage-differentials seems to rest not so much on the equalizing effects of mobility as on the policy standards that may be developed in the great national federations. Here, as organization becomes more nearly universal, there is need of more flexibility in standard union rates, which might otherwise make the poorer workers unemployable, or could prevent a particular sector of industry from making a cost-adjustment that might be necessary to prevent a shutdown. On the whole, "economic law" seems to be taking on the character of a standard of sound policy that cannot be violated without making trouble, and that needs to be understood and voluntarily followed, but that is not self-enforcing.

12. *Conclusion.*

For some hundred and seventy years we have deluded ourselves with the idea that irresponsible self-interest could organize a community in which men not only could progress, but could live in dignity and harmony while doing it. We have trusted to a mechanical market, which promotes goods and neglects men, and to a politics, too little moral,

which represents particular interest better than community need. Meanwhile two great correctives — the neighborhood community and religion — have been waning in their power to bring us together. In too many everyday matters a man is a member of some economic group first and an American afterward. We may deplore this, but the real thing to take to heart is the fact that society has given cause for this attitude, through generations of neglect of important needs, and of blindness to what man is, and what a community is.

We are waking up to some of the more obvious and tangible needs and beginning to make material provision for them. On the human and spiritual side, we are beginning to grope toward common standards, or at least toward a basis on which we can live together with the standards we possess. But we have long arrears to make up. We must learn the working meaning of the truth that a community is not merely something to which one looks for benefits, though it has that side, but is also something to which one owes obligations; and that gains must be justified by contributions, not only to customers, or even to an industry, but to the common enterprise as a whole. This truth needs to be rediscovered after generations of life in a world in which each was expected to look out for himself alone.

The neglected needs can only in part be looked after by the state. In large part they are promoted by groups, contending to advance their interests at the expense of the customary status of other groups. This is a natural and healthy way of making necessary changes, if the groups recognize the social stake in what they are doing, and if, between groups, power is evenly enough balanced to avoid exposing any group to the proverbial corrupting effect of power that is unchecked. President Bryn J. Hovde, of the New School of Social Research, has recently made a preg-

nant statement of the necessary conditions.[12] "Freedom is voluntary association with other individuals who are also free. Therefore individual liberty can not coincide with the power to exploit other individuals or to suppress their liberties. . . . The individual . . . must understand the conditions of his own life in order to decide wisely that he will put up with so and so much law or regimentation in order to enjoy such and such freedom. Only that individual is free, as free as possible that is, who in the privacy of his own mind limits his own liberty in the interest of the greatest possible freedom for all. A society composed of such free individuals will be able to digest all the changes of technology and of social relationships, and will be able to transform into orderly evolution the dynamic forces that would otherwise create revolution."

This sets a high and exacting standard. In so far as it contemplates control by law, every individual is not free to choose how far such control shall go. So this requires him to accept voluntarily a collective decision that will seldom draw the line precisely where he would have chosen to draw it. He will force the line to be drawn too far on the side of regimentation unless, in many matters, he limits his liberty without waiting for law to do it for him. And the principles guiding such limitation, while easy to accept in the abstract, are very difficult to apply to concrete cases, especially one's own case. Those who have new rights to conquer cannot easily visualize the duties that go with them, or even the fact that new rights carry new duties and are forfeit otherwise. Still harder to realize are the dangers of power without adequate social purpose. When all these requirements have been measurably met, we can claim to be an economic community.

In the meantime, fortunately, perfection is not necessary, even in such specific matters as wages and prices. Much

[12] *New School Bulletin*, February 3, 1917.

is gained by open discussion of issues in the light of such reason and sense of fairness as we possess. This becomes effective in proportion as the arguments and the essential facts are accessible to an informed public opinion. We shall not achieve the goal tomorrow; but if we advance on all these fronts, we may move in that direction rather than toward chaos.

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